NEIGHBOURHOODS, COMMUNITIES & EQUALITIES COMMITTEE	Agenda Item 10 Brighton & Hove City Council

Subject:		**Corporate Plan & Medium Term Financial Strategy 2015 – 2019: Budget Planning and Resource Update 2016/17**		
Date of Meeting:		**20 July 2015 – Neighbourhoods, Communities & Equalities Committee** 9 July 2015 – Policy & Resources Committee		
Report of:		**Executive Director Finance & Resources**		
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Ward(s) affected:		**All**		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

1.1 This report provides a budget planning and resource update for the 2016/17 budget process in the context of the council's agreed Corporate Plan and Medium Term Financial Strategy 2015 - 2019. The Medium Term Financial Strategy (MTFS) was developed directly alongside the Corporate Plan, identifying common areas for investment to support priorities and principles that are shared with city partnerships.

1.2 The government will continue with deficit reduction measures up to 2019/20 and have stated reductions will be at the same pace as the previous parliament although at this stage it is not clear if there will be any front loading of funding reductions. The estimates reflected in the council's MTFS include significant reductions in the Revenue Support Grant and specific grants over the period but the timing of those reductions will change as the government sets out its spending plans and austerity measures. The scale of funding reduction over the Corporate Plan cycle means that a more radical and long term approach to the council's service and financial planning is required.

1.3 The local government finance settlement is not expected until December 2015 and this will give little time to react to any material change to the financial planning assumptions. Therefore budget planning will need to allow flexibility to bring forward savings in the event of front loading of funding reductions.

1.4 On the 8 July 2015 the Chancellor is due to present a budget that sets out how the government plans to eliminate the UK's budget deficit and run a surplus by the end of the new parliament. Any implications for the council from this announcement will need to factored into financial planning assumptions.

2. RECOMMENDATIONS:

That the Neighbourhoods, Equalities & Communities Committee:

2.1 Consider the approach to Community Engagement & Consultation as set out in section 5 of the report.

3. CONTEXT/ BACKGROUND INFORMATION

Integrated Service & Financial Planning 2016/17 – 2019/20

3.1 The Council's Corporate Plan 2015 – 2019 'The Way Ahead' outlines the context within which public services will be delivered locally over a 5 year period. The principal issue is the financial pressure facing the council and other public services as the local population grows, demand for services increases and government funding reduces. Together with inflation, this is predicted to result in a budget gap of £102 million over the period of the Corporate Plan starting with the assumption of no council tax increases.

3.2 In this first year of the new Corporate Plan, 2015/16, the council will need to achieve the very substantial savings programme of £24.9 million in order to avoid adding further to the predicted budget gaps in future years. Over the remaining 4 years, the budget gap is predicted to be £77 million, starting with the assumption of no council tax increases[1], or £68 million if 2% council tax increases are agreed each year. This is on top of savings of £77 million already taken out of the council's budget over the period 2012/13 up to and including 2015/16.

3.3 The Corporate Plan recognises that the council will need to change and, with a decreasing budget, is open about the fact that the council will shrink in size, employ fewer people over the coming years, and that the relationship between the council, partners, providers and citizens will need to adapt.

3.4 The scale of the predicted budget gap over the next 4 years, including anticipated increases in the demand for services, requires all services to be fundamentally reviewed and examined to ensure that for those services that are to be provided:

a) Costs are not out of step with comparator authorities or providers without sound evidence and rationale;
b) Services are fully aligned to the Council's purpose, principles and priorities as set out in the Corporate Plan;
c) Delivery is as efficient and effective as possible in whatever form it is delivered;
d) Performance and customer satisfaction are at acceptable levels relative to the cost of service.

The key questions over the next 4 years are: what services should be provided and how should they be provided? The council will need to review all provision and consider the following in assessing service provision:

[1] Note: no announcements about government 'freeze grant/s' in future years have been made.

- Does the service have a strategic fit with the Corporate Plan and does it contribute to the delivery of the stated principles and priorities?
- Does the service need to be modernised relative to best practice, leading research or changing industry standards. Many services are already under review - for example Disability and Special Educational Needs services (SEND review) and Adult Social Care (through the Better Care Fund programme) - which is likely to lead to changes in provision. Essentially, are there better ways to structure, deliver or arrange the service that will contribute toward lower costs over the medium term either directly or through improved equality, prevention or outcomes?
- Similarly, can or should the service operate on a different basis e.g. shared service or in co-operative partnerships, on a trading basis, or with a more commercial approach in order to contribute to the budget gap?

In simple terms, for each service the council needs to consider:

i. Whether or not the council should be providing the service in the short or medium term. If not, should the service be decommissioned or can the service be divested and provided locally by others without council funding?
ii. If the service should be provided, the council should consider what is the best and most affordable way to provide the service in the long term and assess whether or not to:

    - Retain the service in-house;
    - Follow a more commercial approach, including considering alternative delivery models; or
    - Pursue a mixed economy of provision.

3.5 The decision to pursue a more commercial approach for the provision of a service may be made if:

- A service is able to move toward becoming 'self-financing' i.e. generate income. This may apply to many services that currently charge for services e.g. cultural or life event services. In these cases, fees and charges income should be maximised. This may involve investment in order to improve services and generate greater income in future. Alternatively, these services could look at creating new sources of income and may need to pursue an alternative delivery model in order to do so. Generally, all services, including Support Functions, can also be asked to look at generating income wherever possible;
  or
- A suitable alternative delivery model (ADM) can be identified that can provide the service at lower cost either through sharing the cost base (i.e. economies of scale) or generating additional income. This may arise from available local opportunities, business case proposals, discussions with city partners, or other reasons. ADM's could include:

  - A local authority trading company (LATC)
  - A Shared Service
  - Social Enterprise

- Public Sector Partnerships;

Or

- There is a well-developed marketplace with alternative providers able to offer the same or better services at a lower cost and/or at a lower level of investment (e.g. the council's ICT Data Centre provision has recently been outsourced to a Swindon-based provider).

3.6 For many services, the decision will be to retain provision in-house because there is no viable alternative or because the benefits of pursuing alternative provision cannot be demonstrated. For in-house services, benchmarking, inspection and other comparative information is therefore critical to establish the relative cost and performance of the service. Where there are options to improve value for money or where costs and/or performance are out of step with comparator authorities or providers, the council should consider:

a) Undertaking a full Service Redesign including potential working with partners to improve the value for money of the service. This could require internal and/or external expertise to facilitate change;
b) Undertaking Business Process Improvement (BPI) to improve efficiency, productivity and customer service;
c) For some services, exploring co-operative partnership and co-designed services may be a viable option, potentially including exploration of mutuals, and should be considered where there is evidence to support this approach.
d) Invest-to-save proposals whereby investment in service change can bring about greater savings in order to i) pay back the investment and ii) provide additional savings toward meeting the budget gap.

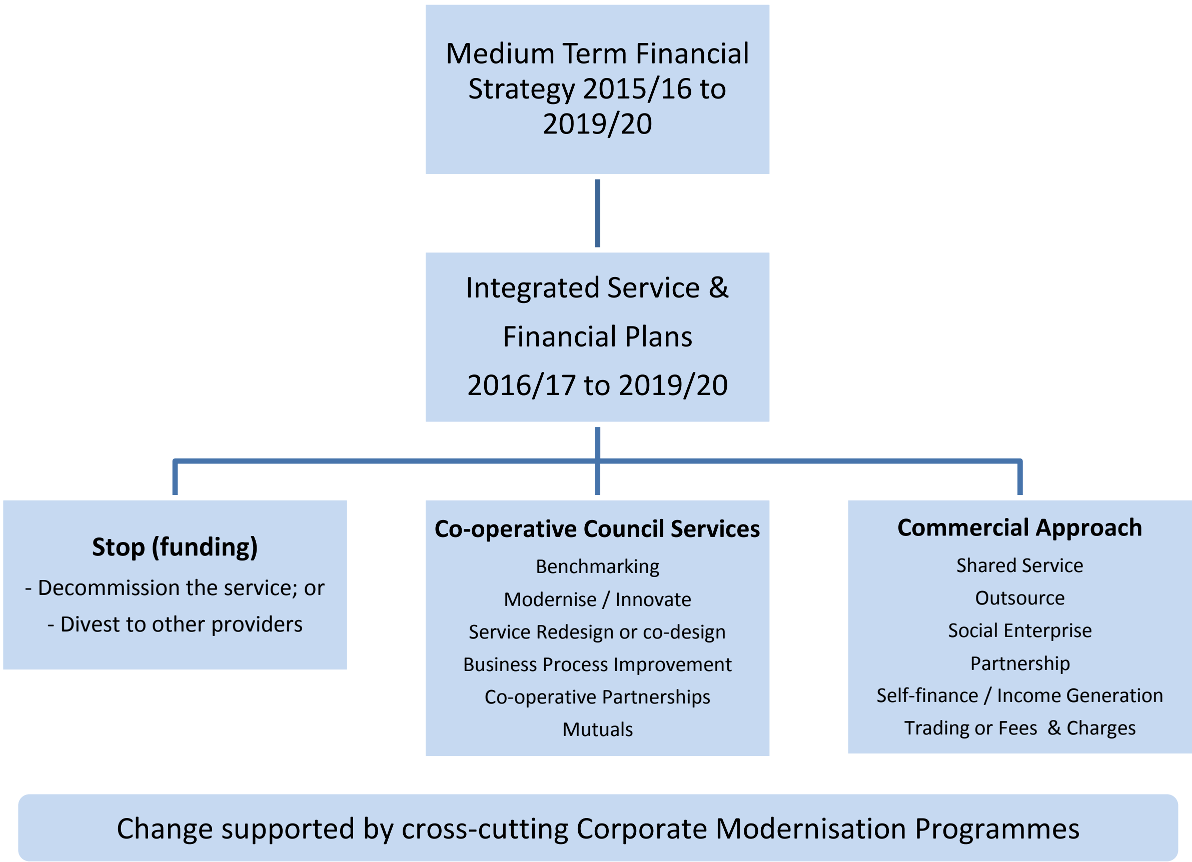
3.7 The above approach suggests a fundamental review of what is provided. This will inevitably result in a wide range of implementation plans covering differing time scales. For this reason, and given the scale of the predicted budget gap, it is proposed to develop 4-year Integrated Service & Financial Plans covering the period 2016/17 to 2019/20. Doing so will not only recognise the greater scale of change and associated time scales, but will also indicate how far the authority has been able to identify strategies to address the budget gap over the period of the MTFS. Clearly, more detailed proposals will be needed for 2016/17 to enable the Council to set a legal budget and council tax.

3.8 The Integrated Service & Financial Plans will need to include both cross-cutting and citywide proposals as well as directorate-led changes. These plans should include the following elements:

a) Overarching strategy to address Corporate Plan principles and priorities;
b) Executive summary of the 4-year Integrated Service & Financial Plan;
c) Specific consultation approaches required;
d) Key legal, service and financial risks and their mitigation;
e) Summary of Equality impact assessments and links to Fairness Commission issues;
f) Appendices - Detailed 4 year Integrated Service & Financial Plan proposals including savings opportunities, invest-to-save proposals, key risks and impacts and their mitigation;

g) Appendices - Detailed EIAs.

3.9 The proposed approach to Integrated Service & Financial Planning can be presented diagrammatically as shown below. This approach will be managed through Directorate Modernisation Boards and will be supported by a number of Corporate Modernisation programmes which apply across the whole council.



3.10 A longer term service and financial planning framework will also require a different method of engagement and consultation. Current annualised consultation and engagement processes may not be appropriate or robust enough for conversations relating to a longer term strategy. Links to the work of the Fairness Commission, City Management Board (i.e. public sector city partners), Greater Brighton City Region, Community & Voluntary Sector and other stakeholders will need to be clearer and feed into the process on an ongoing basis. More in-depth conversations and engagement with neighbourhoods and communities are also likely to be needed. The section on Consultation & Engagement below suggests how this could be approached.

3.11 The timetable for Integrated Service & Financial Planning must still work on an annual basis as there is a legal requirement to set a budget and the level of Council Tax each year. However, discussions around savings, risks and investments can be undertaken on an ongoing basis starting with 2016/17. Once an initial 4-year Integrated Service & Financial Plan is developed, it will be a case of monitoring achievement against the plan and adding or removing proposals to reflect changes arising from:

- The outcome of specific consultation processes in relation to proposals;

- Changing local or national financial projections (e.g. new government spending targets or local taxbase changes or unexpected inflation changes);
- Changing assessments of demand for services (up or down);
- Under or Over achievement of savings requiring replacement or reduced savings respectively;
- Changes in the timescale for delivery of proposals requiring replacement (or brought forward) savings for late schemes, and vice versa for early implementations.

3.12 An outline timetable for the first year of the Integrated Service & Financial Planning process (2016/17) is set out below. The timetable suggests that as many draft proposals as possible are brought to the December 2015 Policy & Resources committee to enable early decisions and to enable consultation and engagement to start in earnest at the earliest opportunity given the likely complexity of proposals and the need to deliver significant savings as soon as possible in 2016/17. This may require proposals to be considered prior to December Policy & Resources committee on a cross-party basis to understand where there is commonality and agreement across groups for savings to be agreed at the December meeting wherever possible. Those savings where there is no agreement across parties, can still be presented but may need further work before being resubmitted in February. One possibility is for the cross-party Budget Review Group to consider proposals to indicate on behalf of their groups where agreement is likely or could be possible.

Proposed Timetable

Date	**Meeting**	**Papers / Activities**
9/07/2015	Policy & Resources	Budget Planning and Resource Update TBM Month 2 forecast
15/10/2015	Policy & Resources	TBM Month 5 forecast
03/12/2015	Policy & Resources	TBM Month 7 forecast Council Tax Reduction Scheme **Integrated Service & Financial Plan – Initial Proposals 2016/17 to 2019/20**
17/12/2015	Council	Council Tax Reduction Scheme
21/01/2016	Policy & Resources	Tax Base report Business Rates Retention tax base forecasts 2015/16
11/02/2016	Policy & Resources	TBM Month 9 forecast (links to budget setting) General Fund Revenue Budget 2016/17 Housing Revenue Account Budget 2016/17 Capital Programme 2016/17
25/02/2016	Budget Council	

Budget and Medium Term Financial Strategy Update

More detailed information and context about the council's General Fund financial position is provided in paragraphs 3.13 to 3.44 below:

__2014/15 Outturn__

3.13 The 2014/15 provisional outturn was presented to Policy & Resources Committee on 11th June 2015 and showed an underspend of £2.103m. This was an improvement of £2.644m from the estimated outturn reported to Budget Council in February 2015. The net contribution to provisions of £2.641m leaves £0.003m in unallocated general reserves. The collection fund surplus for council tax in 2014/15 was £0.64m, £0.41m higher than anticipated and the council's share of this improvement is £0.35m. The council's share of collection fund surplus for business rates 2014/15 was £1.72m after allowing for the repayment of safety net grant. This is £0.13m higher than anticipated. These variances will be built into to the 2016/17 budget projections when the collection fund estimates for 2015/16 are more certain.

__2015/16 Budget Position__

3.14 Details of the forecast risk based on current spending and demand patterns in the first 2 months of the year is provided in the TBM month 2 report elsewhere on this agenda. It shows an overall forecast risk for the General Fund of £8.7m together with a risk of £0.7m in relation to Section 75 Health Partnerships. 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 throughout the year.

Medium Term Financial Strategy 2015/16 – 2019/20

Resources

__Retained business rates__

3.15 The 2015/16 business rates income assumptions included projected growth of 0.5% in rateable value (RV). 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.

3.16 The MTFS assumes a further 0.5% growth in RV in 2016/17 after adjusting for anticipated major changes. The business rates income in 2016/17 will be based on the September Retail Price Index (RPI) increase; the MTFS assumed an increase of 2.8% based on government projections however the continuing lower levels of inflation means this assumption will be revised to 2%, this reduction has been off set by revisions to anticipated changes from developments across the city and therefore there is no change to the estimated Business Rates forecast. The projections will be revised when the inflationary increase is announced. Each 0.5% change in RPI is equivalent to £0.28m retained by the council.

3.17 In 2015/16 the government announced extensions to temporary reliefs including 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 2016 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.

3.18 The government introduced a cap on the business rate inflationary increase for 2014/15 and 2015/16 at 2%. The government has provided a section 31 grant in 2015/16 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. This element of funding is approx. £0.75m in 2015/16.

3.19 The level of business rates income is significantly affected by rating appeals which, when successful can reduce ongoing revenue and require backdated payments. The council sets aside provisions and makes allowances for successful appeals in business rates projections. In December 2014 the government announced a cut off date of 31st March 2015 for lodging appeals against the 2010 rating list that could be backdated - all appeals after this date will not be backdated. This has triggered large numbers of appeals being lodged in March 2015. At this stage this large increase is assumed to include more speculative appeals and therefore there is no requirement to revise the business rates estimate of £56.8m for 2016/17.

General government grants

3.20 The government has not provided estimates of future funding levels for local government and it is unlikely the council will have any certainty until December 2015 when the local government finance settlement is announced. However the government has stated that the level of funding will reduce at the same pace as in the last parliament. Based on this statement the revenue support grant (RSG) forecast for 2016/17 is £32.7m, a reduction of £13.4m or 30% compared with the 2015/16. This is a high level assumption and could change substantially if the government decide to front load funding reductions over the life of the new parliament.

3.21 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.

Function and Funding changes

3.22 The introduction of Universal Credit will transfer the responsibility for administering housing benefits for working age claimants from the council to the Department for Works and Pensions (DWP). The council is in tranche 4 of this move which means a small number of cases start to transfer from December 2015. The transfer of cases is expected to be completed by 2019. The council receives Housing Benefit administration grant and it is anticipated that this grant will reduce as responsibility transfers. At this stage it is assumed this loss will be cost neutral.

3.23 The implementation of the Care Act is running alongside other significant challenges the council is facing including implementing the Better Care Programme, delivering its statutory duties in a time of funding reductions and significant financial savings to be made in adult social care. There is also the need to respond to the significant increase in demand re Deprivation of Liberty activity, sustaining and developing a quality care market and responding to pressures in the NHS system. The timetable for and the funding of Phase 2 of the Care Act to implement the funding reforms, including the introduction of a care cost cap, has not yet been confirmed; a government announcement is expected in July 2015. The original timetable was for implementation from April 2016 and at this time there is a significant risk against the implementation costs. Although some financial modelling has been carried out the promised national model to assess likely demand and cost has not yet been delivered. There is also likely to be an impact on the local care market for which regional and national support has been requested. The Better Care Fund for 2016/17 includes £1.2m to contribute towards additional costs as a result of the council's new responsibilities under the Care Act. In 2015/16 funding has been provided to support early assessments of self funders and development of deferred payment arrangements, however there is a risk that this funding may not wholly cover implementation costs.

3.24 There are no further function and funding transfers anticipated within the budget projections however the government may announce further transfers within the local government finance settlement.

Specific Grants

3.25 As with RSG, the government has not announced future grant levels for specific grants. An allowance of £1.150m service pressure funding for reductions in unringfenced grants has been included in the budget projections.

Fees and Charges

3.26 Fees and charges budgets for 2016/17 are assumed to increase by a standard inflation rate of 2.0% with the exception of penalty charge notices (parking fines) where the levels of fines are set by government and cannot be changed independently.

3.27 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 2016/17 will be presented to the relevant service committee prior to Budget Council.

Council Tax Reduction

3.28 The council's localised Council Tax Reduction Scheme (CTRS) was revised for 2015/16 and included a 15% minimum liability level for working age claimants. 60% of the initial funding from government for CTR was transferred to the council's Revenue Support Grant which is subject to significant reductions. The budget gap assumes there is no change to the minimum liability level for CTR however the level of council subsidy increases dramatically as RSG reduces. Therefore the annual review of the scheme will include consultation on potential changes including changing the minimum liability level.

3.29 The statutory annual review of the scheme will be presented to this committee in December 2015 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. Council 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

3.30 The future resource estimates in the budget papers agreed at Full Council in March were based on a council tax increase of 2% but it will be up to all Members at Budget Council in February 2016 to agree the final level of the council tax. The government confirmed that a local referendum would need to be held for proposed 2015/16 council tax increases of more than 2%. There have not been any announcements about referendum requirements for 2016/17.

3.31 The national grant settlement for 2015/16 included council tax freeze grant equivalent to a 1% increase in council tax for councils who agreed to freeze their council tax in 2015/16. No new announcements around council tax freeze support have been made for 2016/17.

3.32 The council tax collection fund surplus balance at 31 March 2015 was higher than forecast and will be taken into account alongside the estimated surplus for 2015/16 in January 2016 for the 2016/17 budget.

3.33 The MTFS planning assumption for 2016/17 was for a 0.25% increase in the tax base. However, since budget council, the council tax base is higher than anticipated through a combination of there being more new properties than forecast, lower student exempt properties than forecast and a further reduction in the number of CTR claimants. This will improve the collection fund position in 2015/16 and mean an estimated further increase in tax base of 0.85% can be assumed for 2016/17. This adds £0.95m resources and, for planning purposes, these additional resources will add to risk provisions given the uncertainty over government funding.

3.34 The council's share of the business rates collection fund surplus at 31 March 2015 above forecast was £0.13m. This will also be updated alongside any surplus or deficit projected in 2015/16 in January 2016 for the 2016/17 budget.

General Fund Revenue Budget Estimates

3.35 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 2.

Pay and Inflation assumptions

3.36 The budget estimates for 2016/17 assume a 1% increase in employee costs to cover all pay related matters. These sums need to cover any pay awards, local decisions in relation to living wage commitments and any changes to the council's overall pay framework.

3.37 In line with the outcome of the triennial review of the East Sussex pension scheme, the council's employer contribution rate for 2016/17 will increase from 19% to 19.5% and this increase is treated as a commitment within the budget projections.

3.38 The government has announced changes to employer (and employee) National Insurance contributions including removing the contracted out rate for defined benefit pensions. This change will increase the councils general fund employer contributions by up to £2m, schools by up to £2m and the HRA by £0.1m. At this time, we have no information regarding whether or not local authorities will be compensated for this additional cost.

3.39 The provision for general inflation ranges between 0% and 2% depending on the type of budgeted expenditure; fees and charges are assumed to increase by 2.0% with the exception of Penalty Charge Notices. Inflation assumptions for certain types of expenditure such as supplies and services have been reduced compared with the previous MTFS assumption. This has lead to a £0.77m reduction in the inflation assumption overall which will add to corporate risk provisions set against the uncertainty of the local government finance settlement. Increases in costs above assumed inflation levels will be managed through services budget strategies unless the increase is significant and is identified as a corporate service pressure.

Commitments and Risk Provision

3.40 The main commitments in the budget model include funding for the increased employers pension contributions, planned adjustments to the concessionary fares and financing costs budgets, reductions in central recharges to schools and the HRA as a result of reducing costs of services, and the impact of the expected changes to unringfenced grants. In 2015/16 there is a recurrent risk provision of £1.622m, financial projections for 2016/17 include a new £0.5m recurrent risk provision as well as a further local government settlement risk provision of £1.72m generated from the amendments to the projected tax base and from refining the inflation assumptions when compared with the MTFS assumptions agreed at Council in March 2015. This new risk provision will support any adverse changes to planning assumptions however the level of uncertainty over the settlement could mean the level of actual risk is difficult to quantify.

Service Pressures

3.41 Service pressures have a direct effect on the level of savings the council needs to identify to deliver a balanced budget and therefore it is critical that projections are made on a sound basis to provide confidence in the financial assumptions.

3.42 A high level assessment of the current trends on the council's corporate critical budgets and other pressures has been taken into account in setting the service pressure assumptions for 2016/17 and £6.15m has been included for demographic and cost pressures and reductions in unringfenced grants.

3.43 Initial allocations to support service planning are as follows : -

- £2.0m for adult social care particularly in relation to Learning Disability transitions, increased complexity of physical disabilities deprivation of liberty and mental health services;
- £1.5m for children's social care mainly relating to children's placements, Deprivation of Liberty Safeguarding, early help and S17 Homeless;
- £1.15m for reductions in unringfenced grants;
- £0.5m ICT services;
- £0.25m for Housing General Fund temporary accommodation;
- £0.25m to supplement discretionary funds in City Services to help mitigate the combined impact of reduced government funding and the impact of further Welfare Reform measures;
- The assessment identified a range of other demographic, cost legislative and income pressures. The remaining balance of £0.5m pressure funding will be set aside to cover these pressures.

3.44 The above is a very early assessment and suggested allocation of service pressures based on the planning assumption contained within the MTFS. The position will need to be kept under review throughout the year and updated to inform the budget setting process.

Budget Gap 2016/17

3.45 The budget gap for 2016/17 is £19.7m assuming a 2% council tax rise or £21.9m with a council tax freeze (assuming there is no freeze grant available). However given the uncertainties over the funding for the changes in employer national insurance (£2m), the underlying service pressures in the current year and their impact on 2016/17 highlighted in the TBM month 2 report on this agenda, and the uncertainties over the local government settlement, it is proposed to plan on the basis of a minimum budget gap for 2016/17 of £25.0m based on a 2% council tax increase.

General Fund Capital Investment Programme

3.46 A 10-year capital programme has been developed and included in the MTFS. The strategy identifies longer term capital investment plans as well as a funding strategy and the potential outcomes for each investment plan. This strategy includes major investment requirements such as new pupil places, investment in the seafront infrastructure and partnership investment through major projects such as Brighton Waterfront and the i360 project. The strategy also includes Heritage Lottery Fund bids such as the Stanmer Park Master Plan, Royal Pavilion Estates Regeneration and the Volks Railway. Successful bids for government funding through the City Deal to support the £24.5m development of New England House into a Growth Hub has also been included within the strategy.

3.47 The projected capital programme and resources for the next 10-years are included in the table in Appendix 3. Investment in ICT had increased from £0.5m per year to £2.0m over the 3 year period of 2013/14 to 2015/16 with future years reverting back to £0.5m. This element has been revised to £2.0m per year for the next 3 years in recognition of the continued investment requirements to maintain ICT services.

3.48 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 £24.7m in 2016/17 but are subject to confirmation from the Government in December 2015. Indicative education new pupil places and education maintenance grants have been announced up to 2017/18 and total £33.9m for the next two years. Allocations for the Local Transport Fund (LTP) have been announced for the next two years of £5.5m in 2016/17 and £5.4m in 2017/18. Further indicative LTP announcements of £5.2m pa have been announced up to 2020/21.

3.49 Capital receipts support the capital programme and the projections have been reviewed and include receipts from the disposal of Kings House, Patcham Court Farm, 251-253 Preston Road, Eastbrook Farm allotments, the former Whitehawk library site, 76-79 & 80 Buckingham Road and a number of non-core rural assets to support the Stanmer Park redevelopment project.

Housing Revenue Account (HRA) Budget Estimates

3.50 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. In April 2012, the HRA became a 'self financing' account which means that the authority needs to ensure sufficient funds are available to meet the future management, repairs and investment needs of the stock. This has enabled the council to improve planning for management and investment decisions over the longer term. In developing a 30 year Business Plan it is essential the council balances the need to increase the rent with a programme to invest money for the benefit of tenants and also building new council homes. The main determinants of the HRA budget are set out below.

3.51 Rents for 2016/17 will be calculated in accordance with the government's rent guidance, included in the DCLG's 'Guidance on Rents for Social Housing' published in May 2014, which specifies a maximum increase of rent in any one year as being Consumer Price Index (CPI) inflation +1% for the next 9 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'.

3.52 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.

3.53 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. A comprehensive programme of service reviews across the housing service has commenced during 2015/16 with the objectives that the service is being delivered in the most cost effective way, that customers feel they are getting good value from the service and to deliver savings on current budgets. These service reviews will inform the savings target for 2016/17 and beyond.

HRA Capital Programme 2015/16

3.54 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents. The 2016/17 programme includes 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 3.

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 25th February 2016. 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 The move to a longer term Service & Financial Planning framework suggests that consultation and engagement will be required at different levels. On one level, citizens, service users, businesses, the community & voluntary sector, partners and others with an interest in public services could be asked:

- Where they would prioritise spending in the context of reducing funding
- What ideas or views they have about improving services or saving money
- What their view is of the overall 4 year service & financial plan for services
- How people in the city can play a part in helping to change public services in their neighbourhoods and communities
- What people's ambitions and concerns are for the future of the city
- How equality can be improved

It is proposed to develop a work programme for the Fairness Commission that can complement and support longer term service and financial planning to help inform future service direction and the development and design of public services.

5.2 On another level, service specific proposals will need more detailed consultation with neighbourhoods and communities, service users, staff and other key stakeholders to seek views about:

- Proposals to redesign in-house services or co-design co-operative services

- Proposals to stop or divest services with limited or no council funding
- Proposals to deliver services on a more commercial basis or through an alternative delivery model.

Consultation and engagement on service specific proposals will need to follow appropriate council policies and observe statutory requirements. Proposals will also need Equality Impact Assessments to be undertaken where appropriate.

5.3 Finally, it is proposed to continue with general communication and engagement around the budget process, including budget literacy aids such as the budget on-line tool and budget animation, together with the following consultation and engagement activities:

- development of a communication campaign to encourage participation in service & financial planning through the media, social media and with staff;
- a role for scrutiny to be developed with the Chair and members of the Overview & Scrutiny Committee;
- engagement at all stages with key stakeholders such as Community Works, 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 to help inform discussions about prioritising expenditure and options for savings;
- refreshing the on-line budget tool which is a helpful budget literacy aid which can help residents and others engage more fully in budget discussions and debate;
- similarly, it is proposed to refresh the short ‘budget animation’ which many people find to be a useful and simple aid to understanding the council’s services and budget situation;
- repeating the budget questionnaire to residents and businesses to provide comparable information on priorities across years. This questionnaire has run for some years and provides statistically robust insight into how views are changing over time. However, consideration will also be given to asking more open questions about people’s ambitions and concerns for the city to provide context to questions about spending priorities;
- engagement with statutory partners in the city through the City Management Board.

5.4 The cross-party Budget Review Group will keep under review the consultation and engagement process and receive updates from the various strands of engagement. It is also proposed to ask the Neighbourhoods, Communities & Equalities Committee to consider the Community Engagement & Consultation approach outlined above.

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 2016/17 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:

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

Finance Officer Consulted: James Hengeveld Date: 25/06/15

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: Elizabeth Culbert Date: 23/06/15

Equalities Implications:

7.4 It is proposed to continue the screening process undertaken in previous years and continue to improve the quality and consistency of Equality Impact Assessments (EIAs). Key stakeholders and groups will be engaged in developing EIAs but we will also need to consider how 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. There is also likely to be a role for the Neighbourhoods, Communities & Equalities Committee in the budget process and links with the work programme of the Fairness Commission will need to be established.

Sustainability Implications:

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

Risk and Opportunity Management Implications:

7.6 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 2016/17 budget.

SUPPORTING DOCUMENTATION

1 Budget estimates for 2016/17
2. Medium Term Financial Strategy Assumptions and Projections.
3. Projected Capital Investment Programme

Documents in Members' Rooms

1. None

Background Documents

1. Files held within Financial Services
2. Brighton & Hove City Council Budget report, 26 February 2015
3. Brighton & Hove City Council Corporate Plan and Medium Term Financial Strategy, 26 March 2015