POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 24 Brighton & Hove City Council

Subject:		**4 Year Resource and Integrated Service & Financial Planning Update**		
Date of Meeting:		**14 July 2016**		
Report of:		**Executive Director for Finance & Resources**		
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Ward(s) affected:		**All**		

Note: The special circumstances for non-compliance with Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (as amended), (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that key financial information needed to support the revised Medium Term Financial Strategy projections, including the month 2 Targeted Budget Management, position were not available in time to meet the statutory reporting deadline.

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT:

1.1 This report provides a budget planning and resource update for the 2017/18 budget process including an updated Medium Term Financial Strategy (MTFS) based on latest information and resource projections.

1.2 The Comprehensive Spending Review (CSR) 2015 confirmed the continuation of deficit reduction measures up to 2019/20 and indicated that Revenue Support Grant (RSG) will reduce by £39.574 million over a 4 year period. The reduction of grant in 2017/18 will be £11.507 million which makes it a more challenging year than 2018/19 or 2019/20, particularly following on from a savings requirement of over £19 million in the current year. Taking into account cost and demand increases alongside RSG and other grant reductions, further savings requirements of around £44 million are anticipated over the next 3 years, with £18 million of this being required in 2017/18.

1.3 The local government finance settlement is not expected until December 2016 and this will give little time to react to any material change to the financial planning assumptions. With the revaluation of properties for business rates due in 2017/18, there could be considerable uncertainty over the final resources available to the council next year. In addition, it is not yet possible to guage whether or not the result of the recent referendum and 'Brexit' will have a material effect on public spending. Therefore, budget planning will need to allow flexibility to bring forward savings in the event of an adverse fluctuation in resources.

1.4 Last year, 4 Year Service & Financial Plans were considered in support of a longer term approach to planning and to assist in managing the scale of the financial challenge. These plans identified around £59 million savings of which over £19 million will be delivered in 2016/17 (excluding ring-fenced Public Health savings). The remaining proposals for the next 3 years from 2017/18 to 2019/20 will be refreshed and tested to ensure they remain deliverable.

2. RECOMMENDATIONS:

That the Policy, Resources & Growth Committee:

2.1 Note the resource and net expenditure projections for 2017/18 and the Medium Term Financial Strategy (MTFS) projections set out in the body of the report and appendices 1 and 2 based on 1.99% Council Tax increases and annual 2% Adult Social Care precept.

2.2 Note the revised savings requirement of £44.4 million over the 3 years 2017/18 to 2019/20, including £18.2 million in 2017/18, to be used for budget setting purposes as detailed at paragraph 3.11.

2.3 Instruct the Executive Leadership Team (ELT) to refresh the current 4 Year Service & Financial Plans and develop further savings proposals to address any outstanding budget gaps, in particular for 2017/18, based on the MTFS assumptions in this report for consideration by Policy, Resources & Growth Committee.

2.4 Agree the proposed approach to reviewing the Council Tax Reduction Scheme as set out in paragraphs 3.23 & 3.24.

2.5 Note the resource projections for the Capital Investment Programme as shown in appendix 3.

3. CONTEXT/ BACKGROUND INFORMATION

4 Year Service & Financial Plans – the next phase

3.1 The 2016/17 Budget Council meeting in February 2016 confirmed the challenging scale of predicted budget gaps over the next 4 years following announcement of the government’s Comprehensive Spending Review 2015 and an assessment of projected cost and demand pressures facing the authority over the period. A total budget gap of £68 million was predicted for the period, based on 1.99% annual council tax increases. The primary drivers of the predicted gap were reducing government grant support, projected growth in service demands (mainly social care and homelessness), and cost increases (inflationary or new statutory requirements such as the National Living Wage).

3.2 Due to the scale of financial challenge over the medium term, an annualised budget setting approach was no longer considered appropriate. For 2016/17, Budget Council therefore considered longer term, 4 Year Service & Financial Plans setting out potential savings proposals for closing the budget gap over the period 2016/17 to 2019/20. Although only the savings and budget for 2016/17 were formally approved, the savings proposals in the 4 year plans will provide a useful starting point for each subsequent financial year, identifying around £59 million of potential savings over the 4 years. Subsequent decisions by Policy, Resources & Growth Committee, for example, approved changes to services, have resulted in a confirmation of some savings for later years of the 4 year plans.

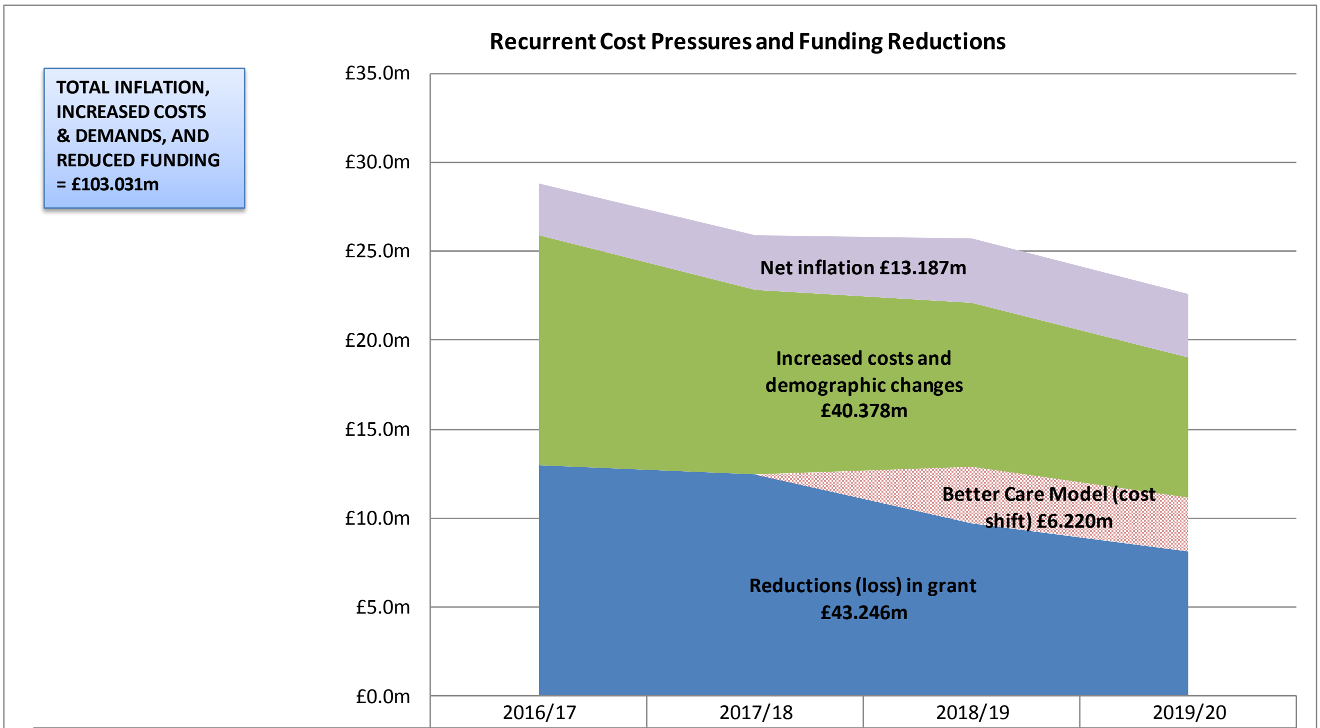
3.3 The 4 Year Services & Financial Plans will be refreshed and 'stress tested' to ensure that proposals remain deliverable and achievable in the context of current service demands and statutory requirements. The 4 year plan for the 2017/18 budget will move forward by one year but it is recommended this continues to cover the period up to 2019/20 (i.e. a further 3 years) rather than add a further year's savings to the plans. This is because there is likely to be a substantial change to local authority funding from 2020/21 following government consultation on proposals to introduce 100% business rate retention. The impact of this change on local authority finances is not possible to predict with any certainty and forecasting savings requirements would be very problematic. However, the council's Medium Term Financial Strategy has been updated with the latest information, including revised tax base projections, to reassess the projected budget gaps up to 2019/20. This indicates that, including 2016/17, savings of £64 million will be required to close the budget gap. With £19.4 million savings having been identified in 2016/17 (excluding ring-fenced Public Health savings), this leaves circa £44 million savings to be confirmed and/or identified over the remaining 3 years to 2019/20.

3.4 Appendix 2 summarises the total savings across services over the next 3 years that were identified in the original 2016/17 4 Year Service & Financial Plans. This identified £59 million total savings, including £39 million from 2017/18 to 2019/20. The savings from 2017/18 onward need to be re-affirmed taking into account current service information to assess likelihood of delivery and achievement.

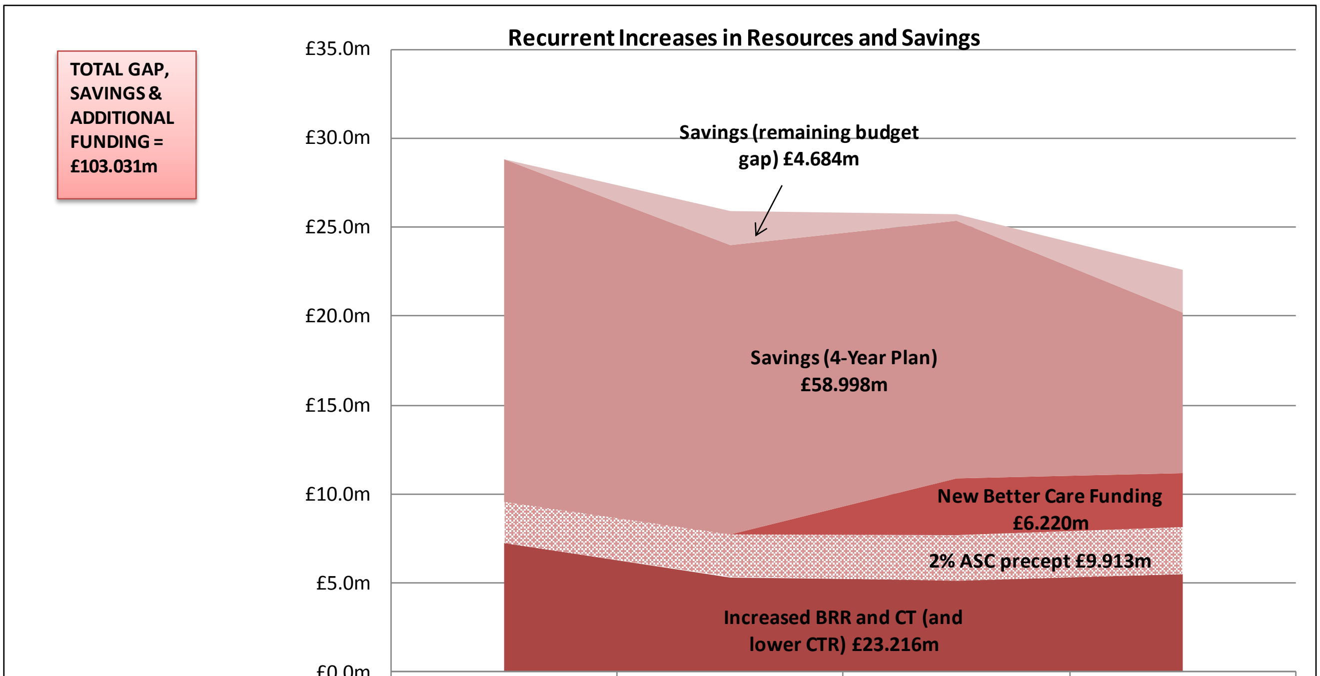
3.5 The two charts below are important in understanding why the budget gaps i.e. savings requirements are so large. Both charts cover the 4 year period 2016/17 to 2019/20. The first chart represents the amount of money that will be added to the council's net expenditure each year. This is broken down into:

- Inflation i.e. standard pay and price increases at 1% and 2% respectively. These represent averages increases across pay, expenditure and income budgets. However, note that inflation provision is not automatically allocated to all income and expenditure types;
- Increased costs and demographic changes. This relates to new costs such as the impact of the National Living Wage on the cost of care provider contracts. It also includes a wide range of demographic factors including increasing complexity of social care needs, increasing Deprivation of Liberty Standards (DoLS) assessments, increasing population demographics for certain age groups, increasing homelessness accommodation costs, and other new statutory demands;
- Better Care Model (cost shift). This cost assumption directly matches new Better Care funding due to be provided by the government from 2018/19 (see second chart). At this stage it is not clear whether or not this will be fully required. However, the current assumption is that the Better Care Programme, through preventative strategies and integration of health and social care, will result in a significant shift in cost from the hospital setting to other care provision, notably social care. It is therefore assumed that all of this new funding will be matched by new costs. This is consistent with the Local Government Association's (LGA) cost predictions which estimates cost pressures of £1.5 billion to £2.8 billion by 2020;

- Reductions (loss) in grant. This reflects the known reductions in central government grant support including Revenue Grant Support (RSG), Education Support Grant (ESG), New Homes Bonus and Housing Benefit Administration grant along with other smaller grant reductions.



	2016/17	2017/18	2018/19	2019/20
Net inflation	£2.913m	£3.076m	£3.626m	£3.572m
Increased costs and demographic changes	£12.925m	£10.366m	£9.213m	£7.874m
Better Care (cost shift)	£0.000m	£0.000m	£3.188m	£3.032m
Reductions (loss) in grant	£12.971m	£12.458m	£9.696m	£8.121m



	2016/17	2017/18	2018/19	2019/20
Savings (remaing budget gap)	£0.000m	£1.912m	£0.367m	£2.405m
Savings (4-Year Plan)	£19.248m	£16.256m	£14.475m	£9.019m
New Better Care Funding	£0.000m	£0.000m	£3.188m	£3.032m
2% ASC precept	£2.307m	£2.425m	£2.534m	£2.647m
Increased BRR and CT (and lower CTR)	£7.254m	£5.307m	£5.159m	£5.496m

3.6 The above charts are identical in size. The first represents the total amount of additional annual costs that the council expects to incur over the 4 year period 2016/17 to 2019/20, totalling £103.031 million. The second chart shows how this must be exactly matched by either new resources and funding, or by reducing costs (i.e. savings). If the two blocks represented by the charts do not match, the council's budget will not be in balance. While a budget surplus is highly unlikely, a budget deficit cannot be permitted.

3.7 It is evident that in both charts, there is a level of influence possible in respect of all elements except reductions in grant. However, the two key elements that must be focused on are 'Increased costs and demographic changes' where every effort must be made to avoid increasing costs, for example through effective demand management, preventative health & social care and homelessness strategies, or identifying other ways to mitigate cost increases such as re-procuring or re-designing services to manage new demands. The other element, 'savings', is equally critical and will need to follow the 4 year service and financial planning approach set out in last year's budget report as follows:

4 Year Plans: Service Review Approach

3.8 To develop the 4 year plans a clear methodology was adopted last year whereby all services were reviewed to consider whether or not to:

- **Stop Funding**: i.e. whether or not the council should be providing or funding the service in the short or medium term, particularly if it is not statutory, or is above statutory minimum levels, or could be provided in another way without council funding;
- **Retain and Re-design**: i.e. where it is assessed that the service will need to continue to be provided and funded by the council, services were asked to

consider the best and most affordable way to provide the service in the longer term against a reducing overall resource base. This includes redesigning and modernising services in the context of benchmarking, best practice, leading research or changing industry standards. In this respect, many services were already under review, for example, Disability and Special Educational Needs services (the SEND review) and Learning Disability Services;

- Adopt a **'Commercial Approach'** within a public service context: i.e. looking at the possibility of some services operating on a different basis e.g. in a shared service or in a new partnership, or on a more commercial/trading basis. For example, Support Functions continue to explore the option of joining the Orbis shared service venture with Surrey and East Sussex County Councils, while Trust Status is being pursued for the Royal Pavilion & Museums. Many service areas are also able to generate new or increased revenues and may be able to move toward 'self-financing'. This may or may not require operating on a traded basis under an Alternative Delivery Model (ADM). Examples of ADM's that can be considered include:
    - Local authority trading companies (LATC) which can be wholly or partly owned by the authority;
    - Shared Services with one or more local authorities, for example the Orbis Support Function venture;
    - Outsourcing to private or independent sector providers;
    - Social Enterprise – a form of outsourcing with specific, added social value objectives;
    - Employee Mutuals or Trust status entities;
    - Public Sector Partnerships or joint venture models. These can include an equity share or other capital investment or risk-share if desired.

3.9 The rationale for adopting one approach over another takes into account a wide range of factors including but not limited to:

- The cost of providing services compared with other available provision (i.e. benchmarking or soft market testing);
- The availability of alternative provision, particularly locally;
- Trading or income generation opportunities (i.e. market research on demand and supply);
- Advantages and disadvantages of alternative provision including taxation, VAT, employment and other financial, legal or reputational risks;
- Statutory versus non-statutory provision or 'universal' services with the latter often providing more choice about what level of service is provided or funded and how;
- The willingness or availability of partners in the city region to develop joint or shared ventures; and
- Levels of one-off or ongoing investment needed to change to a different model of service delivery i.e. whether or not the business case for changing is financially viable when taking into account the cost of change.

3.10 The 4 Years Service & Financial Plans will now move forward one year but will continue to align with 2019/20 for reasons described earlier in the report. The remaining 3-years of the plans will be refreshed and tested and new or replacement savings developed using the approach outlined above. In February 2016, Budget Council approved £6.000 million one-off, invest-to-save resources to support achievement of identified savings over the 4 years; this will also need to reviewed once savings proposals have been refreshed.

3.11 The 4 Year Service & Financial Plans ultimately presented to this committee in February 2017 will therefore be updated for the next 3 years and will reflect the council's revised organisational structure. It is planned that these documents will follow the same format as those used to set the 2016/17 budget and include an overall Budget Strategy statement and strategy statements for each directorate. Below is a table that shows the projected budget gap for each of the next 3 years alongside the savings proposals included in the February 2016 report which are subject to revision and confirmation. The Executive Leadership Team will focus on providing a full savings package to balance the budget for 2017/18 together with indicative proposals for 2018/19 to 2019/20.

	2017/18	**2018/19**	**2019/20**	**Total**
Budget Gap	£18.168m	£14.842m	11.424m	£44.434m
Savings proposals included in February 2016 Budget report	-£16.256m	-£14.475m	-£9.019m	-£39.750m
Remaining Gaps	£1.912m	£0.367m	£2.405m	£4.684m

Timetable

3.12 The Timetable for budget papers is given below. This timetable does not include detailed plans for ongoing consultation with stakeholders and this will be determined in conjunction with those involved.

Date	Meeting	Papers / Activities
13 Oct 2016	Policy, Resources & Growth	TBM month 5
8 Dec 2016	Policy, Resources & Growth	Budget Update including Service and Financial Plans TBM month 7 Council Tax Reduction Scheme 2017/18
15 Dec 2016	Council	Council Tax Reduction Scheme 2017/18
19 Jan 2017	Policy, Resources & Growth	Council tax base Business Rates tax base
9 Feb 2017	Policy, Resources & Growth	TBM month 9 Revenue, Capital and HRA budget reports
23 Feb 2017	Budget Council	Revenue, Capital and HRA budget reports

Medium Term Financial Strategy Update 2016/17 to 2019/20

3.13 The Medium Term Financial Strategy (MTFS) has been updated since the Budget Report presented to Policy & Resources Committee in February 2016 taking into account revised assumptions. Summary MTFS tables are included in appendix 2. More detailed information and context about the council's General Fund financial position is provided in the following paragraphs:

2015/16 Outturn

3.14 The 2015/16 provisional outturn was presented to Policy, Resources & Growth Committee on 9th June 2016 and showed an underspend of £4.780m. This was an improvement of £1.299m from the estimated outturn at Month 9 and recommended changes to Minimum Revenue Provision (debt repayments) reported to Policy & Resources Committee and Budget Council in February 2016. The collection fund for council tax and business rates had a net higher deficit than forecast and the council's share was £0.354m.

2016/17 Budget Position

3.15 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 £3.745m including a risk of £0.236m in relation to Section 75 Health Partnerships. The forecast risk at Month 2, while challenging, would appear to be manageable in the context of the expected level of risk, given that it is early in the financial year with sufficient time to take further corrective action without resorting to wholesale spending and recruitment restrictions. 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.

Government 4 Year Financial Settlement offer

3.16 As part of the provisional local government settlement announced on the 17 December 2015, the Secretary of State for Communities and Local Government announced a 4 year funding offer for local authorities for the period 2016/17 to 2019/20. The settlement provided indicative resources over the 4 year period and the offer is to provide these resources as minimum funding levels. The Council has until 14 October 2016 to apply to take up the offer and will be required to provide an 'efficiency statement' to support the application. Details of the requirements of the efficiency statement have yet to be finalised. The 4 year offer is intended to provide an element of certainty and support medium term planning, however the government has stated it could amend the offer depending on the national financial position as well as changes to responsibilities of local authorities. Once the details of the offer and application process are received consideration can be given to appying for the offer.

Business Rates Retention

Revaluation

3.17 Business Rates are being revalued for 2017 for the first time since 2010 and the new rating list will apply from 1 April 2017; a draft list being available in the autumn of 2016. This revaluation will be fiscally neutral nationally but could cause significant distributional change amongst local authorities and changes to the top up and tariffs mechanism. Therefore the financial impacts of this cannot be quantified until more detail is released. With a new rating list, a judgement will need to be made on the level of successful appeals that will materialise. The business rates income forecast for 2017/18 and beyond therefore remains highly uncertain.

100% retention of business rates

3.18 Government announcements have stated that local government will retain 100% business rates by the end of parliament and that business rates will be uprated by the Consumer Price Index from 1 April 2020, rather than Retail Prices Index currently used. These changes have implications for the Revenue Support Grant which is expected to be phased out and will also include the transfer of new responsibilities to councils. A number of technical working groups have been meeting in recent months to discuss the many issues arising from implementation of 100% retention of business rates. The groups include representatives from local authorities as well as government and the Local Government Association (LGA). On 5 July 2016 the government issued a consultation document on 100% business rates retention with a closing date of 26 September 2016. In responding, Finance team will consult with neighbouring authorities to ascertain whether there are opportunities to join up key messages.

Business Rates estimate for 2017/18

3.19 As referred to above revaluation is the biggest risk to the level of business rates for 2017/18 and there has been no formal announcement on how the impacts of revaluation for winners and losers will be equalised between authorities. The 2017/18 business rates forecast is assuming a cost neutral impact from revaluation however this will need to be revised once further information on how revaluation will be dealt with is released.

3.20 The March budget statement also gave details on increasing Small Business Rate Relief (SBRR) permanently from 50% to 100% from 1 April 2017 as well as increasing the thresholds for when businesses are entitled to this relief. The government have stated that local authorities will be compensated in full for their loss of income as a result of these budget announcement changes through Section 31 grant funding.

3.21 The inflation assumption for increases in business rates was previously based on government estimates in the settlement of 2% for 2017/18. However based on latest inflation figures the council has revised the increase for next year down to 1.2%. The actual increase will be based on September 2016 RPI.

3.22 The projected business rates tax base for 2017/18 has been amended for known developments and the assumption the council will be no better or worse under revaluation net of appeals. These changes, combined with the change to the RPI assumption means the estimated income forecast for 2017/18, including S31 compensation grants, is £56.400 million which overall, is a reduction of £0.112 million from the amount included in the previous MTFS.

Council Tax

Council Tax Reduction Scheme

3.23 The council's localised Council Tax Reduction Scheme (CTRS) for 2016/17 was agreed by Council in December 2015 and included provision to pay up to 80% of Council Tax for working age claimants meaning a 20% minimum liability level.

3.24 The annual review of the scheme requires consultation and this will include options for further potential changes including changing the minimum liability level. The statutory annual review of the scheme will be presented to this committee in December 2016 and then to Council to agree the final scheme for 2017/18 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.

3.25 The council has experienced ongoing reductions in the number of CTR claimants for both working age and pensionable age averaging at 4% each year. This reduction is assumed to continue into 2017/18 and the Council Tax Base projections will be adjusted for this assumption. The number of CTR claimants will fluctuate with economic conditions and the assumption of reducing numbers will be kept under close review.

Council Tax Estimate 2017/18

3.26 The council tax increase for 2017/18 is based on 4% which incorporates 2% for the Adult Social Care precept. The underlying tax base was previously based on a 0.5% net increase to allow for new properties and changes to discounts and exemptions. Reviewing the latest tax base figures and property numbers shows that a higher number of new properties can be included in the tax base. The impact of this along with the continuing reduction in CTR claimants means an additional 0.5% can be added to the tax base forecast. The additional 0.5% raises additional ongoing council tax income in 2017/18 of £0.6 million.

Government Grants

Revenue Support Grant (RSG)

3.27 The government included indicative RSG allocations for 2017/18 to 2019/20 alongside the 2016/17 settlement. These allocations have been assumed in the MTFS. The indicative allocation for 2017/18 is £21.618 million, a reduction of £11.507 million or 35% compared with 2016/17.

Better Care Funding

3.28 Better Care funding through the Clinical Commissioning Group (CCG) will continue into 2017/18 at broadly the same level as 2015/16. The Better Care Fund will be £20.087 million of which £5.995 million will be for 'protecting adult social care'. The Better Care Plan for 2016/17 was reported to and approved by the Health & Wellbeing Board on 19 April 2016.

3.29 The Better Care funding direct to local authorities through the Department for Communities and Local Government was included in the 4 year indicative settlement. This council will first receive funding through this route in 2017/18 and the indicative allocation is £3.2m to support pressures in Adult Social Care, rising to £6.2m in 2018/19. At this stage it is not clear if there are new responsibilities that this funding is expected to cover but for planning purposes it is assumed that there will be a cost shift of at least the same value as the Better Care programme takes effect and people's needs are provided for outside of hospital settings.

3.30 A Sustainability & Transformation Plan (STP) is also currently being developed for the Sussex & East Surrey area and is due to be submitted to NHS England imminently. The STP sets out projected Health and Social Care funding gaps over the next 5 years if nothing were to change. A second model projects funding gaps assuming that interventions such as the Better Care programme achieve their objectives.

Education Services Grant (ESG)

3.31 The ESG allocation for the city is currently £2.895 million. In the last spending review it was announced that ESG would be phased out as part of savings nationally of around £600 million. The government plans to reduce the local authority role in running schools by the removal of a number of statutory duties. Consultation on policy and funding changes is due later this calendar year. The council has budgeted for a 26% reduction in grant for 2017/18 without any corresponding reduction in costs.

New Homes Bonus

3.32 The government issued technical consultation on proposed changes to the New Homes Bonus grant scheme including potentially significant reductions in 2018/19 estimated at £1.7 million. To date, net gains in New Homes Bonus have been treated as a recurrent resource however, as the scheme is changing, it is planned to use any net gain in the 2017/18 allocation as one off resources to avoid creating further savings pressures in future years. The council needs to achieve at least £0.6m before any net gain. The latest projection, assuming certain developments, reach building completion by the end of September, could be between £0.3m and £0.5m net gain.

Other grants

3.33 The Department for Health have provided indicative allocations for the Public Health grant in 2017/18 and the council's grant is £20.619 million which is a reduction of 2.5% from 2016/17.

3.34 Pressure funding of 10% has been allowed for reductions in the centrally held unringfenced grants budget (excluding ESG).

Function & Funding changes

3.35 In the Autumn Spending Review it stated that the temporary accommodation management fee currently paid to local authorities from DWP would end from

2017/18. It went on to say that more than equivalent funding would be devolved to local authorities through a new grant to better manage temporary accommodation pressures. Further details on the new grant are awaited in order to assess the financial impact of this change.

Fees and Charges

3.36 Fees and charges budgets for 2017/18 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.

3.37 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 2017/18 will be presented to the relevant service committee prior to Budget Council.

Reserves Position

3.38 The working balance continues to be maintained at £9 million. There are no unallocated general reserves as these were either included as part of the budget set for 2016/17, or allocated as part of the provisional outturn 2015/16 report to this committee in June.

3.39 The following table identifies potential resources and liabilities that will need to be taken into account in setting the 2017/18 budget. This assumes that spending in 2016/17 is in line with the TBM Month 2 report projections included elsewhere on this agenda.

Table 1 - General Reserves	
	£m
Net Overspend at TBM 2	3.745
2016/17 risk provisions	-3.000
Estimated council tax collection fund 2016/17 surplus	-0.654
Estimated business rates retention collection fund 2016/17 deficit	1.303
Estimated net gain from 2016 New Homes Bonus (mid range)	-0.400
Release of unused Rugby World Cup resources	-0.100
Projected total one off resources required	**0.894**

3.40 This position will be updated for the December Budget Update report to this committee. A full review of reserves will be completed and the outcome of the review will be reflected in the February budget report along with any changes to the TBM position at Month 9.

General Fund Revenue Budget Estimates

Pay and Inflation assumptions

3.41 The budget estimates for 2017/18 assume a 1% increase in employee costs in line with the pay agreement already reached for 2017/18. In addition £0.1 million has been set aside in contingency to cover any local decisions in relation to living wage commitments and any changes to the council's overall pay framework. The changes to the National Living Wage and the Living Wage Foundation pay rates in future years could have far reaching effects on the council's pay structure and third party contracts and any financial implications will need to be taken into account.

3.42 The triennial review of the East Sussex pension scheme for the period 2017/18 to 2019/20 is due in December this year. The current contribution rate is 19.3% and the MTFS assumes further increases of 0.5% per year over the next 3 years.

3.43 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 £0.6 million reduction in the inflation assumption overall which be used to reduce the budget gap for 2017/18. 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.

Apprenticeship Levy

3.44 The apprenticeship levy is due to come into force on 1 April 2017. The levy is calculated at 0.5% of pay and is estimated to be £0.550 million for the general fund (£0.5 million across schools and £0.03 million for the HRA). This sum has been assumed to be a net increase in costs for the council.

Commitments & Risk Provisions

3.45 The budget projections for 2017/18 include commitments relating to increased employer's pension contributions, the apprenticeship levy, 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.

3.46 In 2016/17 there is a recurrent risk provision of £1.500 million and one off provision of £1.500 million. Financial projections for 2017/18 include a new £0.800 million recurrent risk provision.

Cost, Income and Demand Pressures

3.47 The budget projections for 2017/18 include £5.000 million for service pressures, £0.950 million for unringfenced grants pressures and £2.400 million specifically for cost pressures in Adult Social Care funded from the expected resources raised through the Adult Social Care Precept. These resources are set aside to deal with pressures in 2017/18 and will be subject to review. The ongoing service pressures are currently projected to exceed the £5.000 million assumption including those identified within TBM Month 2 elsewhere on this agenda and therefore consideration needs to be given to the balance between risks provisions held corporately and setting robust service budgets.

3.48 Projected service pressures will continue to be evaluated and an update will be included in the December budget report. The final treatment of pressure funding and risk provisions will be included in the budget report February 2017 when the overall resource position is known including the TBM Month 9 2016/17 position.

Budget Savings Requirement within 4 Year Service & Financial Plans

3.49 The Medium Term Financial Strategy identifies a projected £44.434m budget gap over the next 3 years assuming a 1.99% council tax increase, and the 2% Adult Social Care Precept is applied to rising cost and demographic pressures within the service. These projections are subject to change once the local government finance settlement is confirmed in later in the year.

Schools Funding

3.50 In 2017/18 and 2018/19 the Department for Education (DfE) will move towards a new national school funding formula, with the intention that this will operate in full for 2019/20. Funding will still pass through the local authority onto schools in 2017/18 and 2018/19 and local authorities will continue to determine funding according to local formulae (with funding for academies also determined by reference to the local formula), within the parameters set nationally.

3.51 The DfE's first stage of the national consultation for implementing a new national funding formula ended on 17 April 2016. This included consulting on proposed changes to High Needs funding. The second stage of consultation is expected before the summer break and for it to end by early October 2016. In addition a consultation on Early Years Funding (known as Early Years Block) is expected later this calendar year.

3.52 In March the DfE also asked for updates on baseline information for 2016/17 and for details of the historic commitments within the schools block, and this included combined budgets, historic pension costs, and Equal Pay.

Housing Revenue Account (HRA)

3.53 The Housing Revenue Account (HRA) is a ring-fenced account which covers the management and maintenance of council owned housing stock. This must be in balance meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.

3.54 Although the HRA is not subject to the same funding constraints as the General Fund it still follows the principles of value for money and equally seeks to drive out inefficiencies and achieve cost economies wherever possible. 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 to ensure that services are being delivered in the most cost effective way, that customers feel they are receiving good value from the service and to deliver savings on current budgets.

These service reviews will feed into the HRA financial service plans (2017/18-2019/20).

3.55 Rents will be reducing by 1% in accordance with government legislation. The Welfare Reform and Work Act 2016, included legislation from April 2016 that social housing rents should be reduced by 1% per annum for 4 years (2016/17 to 2019/20).

3.56 Rents are not calculated to take into account any service charges and only include all charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services. Service charges are therefore calculated to reflect additional services which may not be provided to every tenant or which may be connected with communal facilities rather than to a particular occupation of a house or flat. Different tenants may receive different types of service reflecting their housing circumstances. All current service charges are reviewed annually to ensure full cost recovery and also to identify any service efficiencies which can be offset against inflationary increases, to keep increases to a minimum.

3.57 At this stage there remains a number of uncertainties from recent government legislation (Housing and Planning Act 2016 and Welfare Reform and Work Act 2016), which may significantly impact on the long term financial health of the HRA, in particular the requirement to sell off high value homes when they become vacant. Once detailed proposals are known they will be included in the HRA Medium term and 30 year financial forecast.

HRA Capital Programme

3.58 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents. The 2017/18 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. The programme will require further updating to reflect the impact of the Housing and Planning Act 2016 once the details are known.

Capital Programme

3.59 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. The strategy also includes Heritage Lottery Fund bids such as the Stanmer Park Master Plan, Royal Pavilion Estates Regeneration and the Volks Railway.

3.60 Government funding through the City Deal has been received to support the development of New England House into a Growth Hub. Local Growth Funding grants have been approved from Coast to Capital to support the Circus Street development and Preston Barracks Central Research Laboratory. Local Growth Funding has also been received for transport initiatives including Valley Gardens, the Intelligent Transport System and the Brighton and Hove Bike Share scheme. Much needed investment from the Highways Infrastructure Fund has been made into the development of Shelter Hall has also been incorporated into the strategy.

3.61 The projected capital programme and resources for the next 10-years are included in the table in Appendix 3. Investment in the Customer First in a Digital Age (CFDA) programme has been included into the strategy for £2.000 million per annum over the 3 years 2016/17 to 2018/19.

3.62 Capital 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 sees fit. Unringfenced government capital grants for education, transport, health and housing are projected to be £24.000 million in 2017/18 but are subject to confirmation from the Government in December 2016. Indicative new pupil places funding of £11.445 million and education maintenance grant of £4.909 million have been announced for 2017/18 although the recent announcement from the Education Funding Agency in March 2016 is that there will be no further new pupil places funding in 2018/19 for Brighton and Hove. Allocations for the Local Transport Fund (LTP) have been announced for 2017/18 of £5.391m. Further indicative LTP announcements of £5.169 million per annum have been announced up to 2020.

3.63 Capital receipts from the sale of surplus land and buildings 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 and a number of non-core rural assets to support the Stanmer Park redevelopment project. The council will continue with its strategy of re-balancing the property portfolio by disposing of low or non-performing commercial properties and reinvesting in more viable property investments. This ensures costs can be minimised and rental growth maximised to ensure best value is achieved.

3.64 The Capital Investment Programme will support the delivery of the 4 Year Service & Financial Plans from 2016/17 to 2019/20 and up to £14.488 million has been set aside to support the investment requirements to meet these plans over that period.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

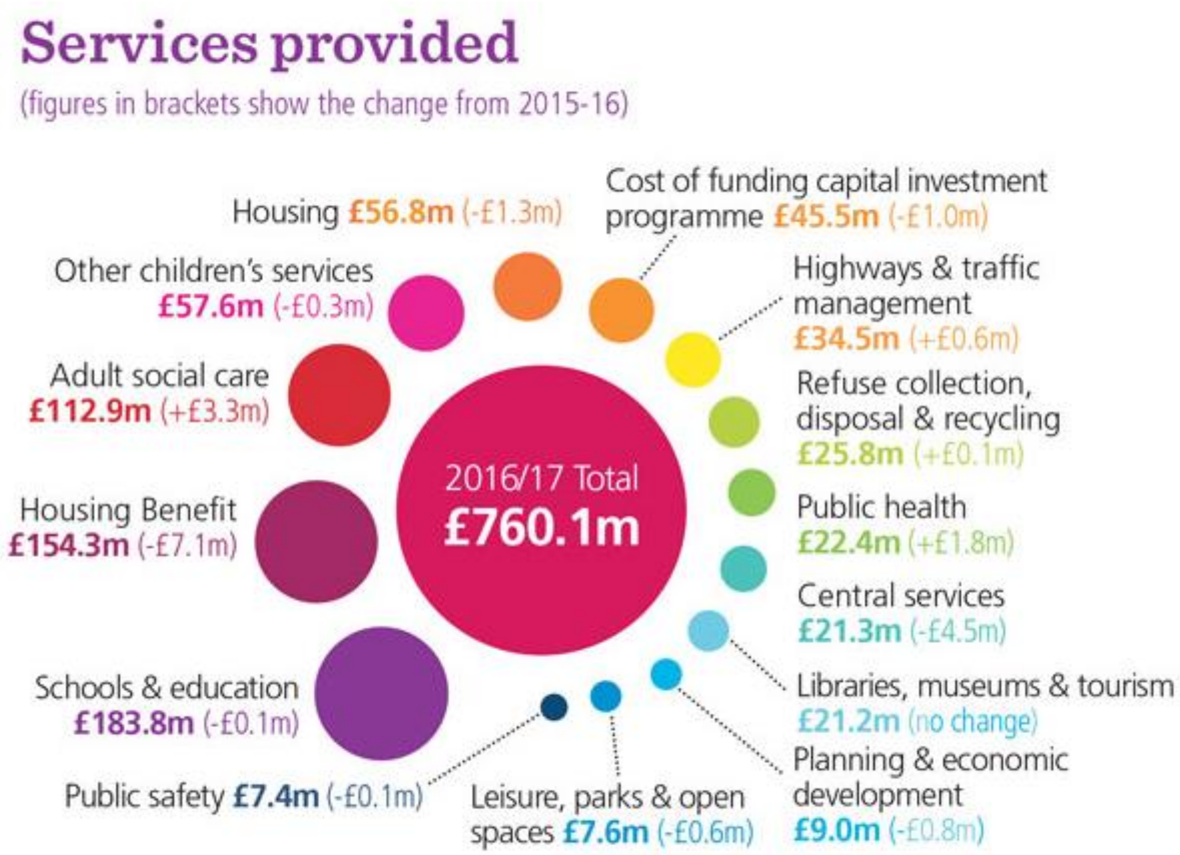
4.1 The budget process allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals to Budget Council on 23 February 2017. Budget Council has the opportunity to debate the proposals put forward by the Committee at the same time as any viable alternative proposals.

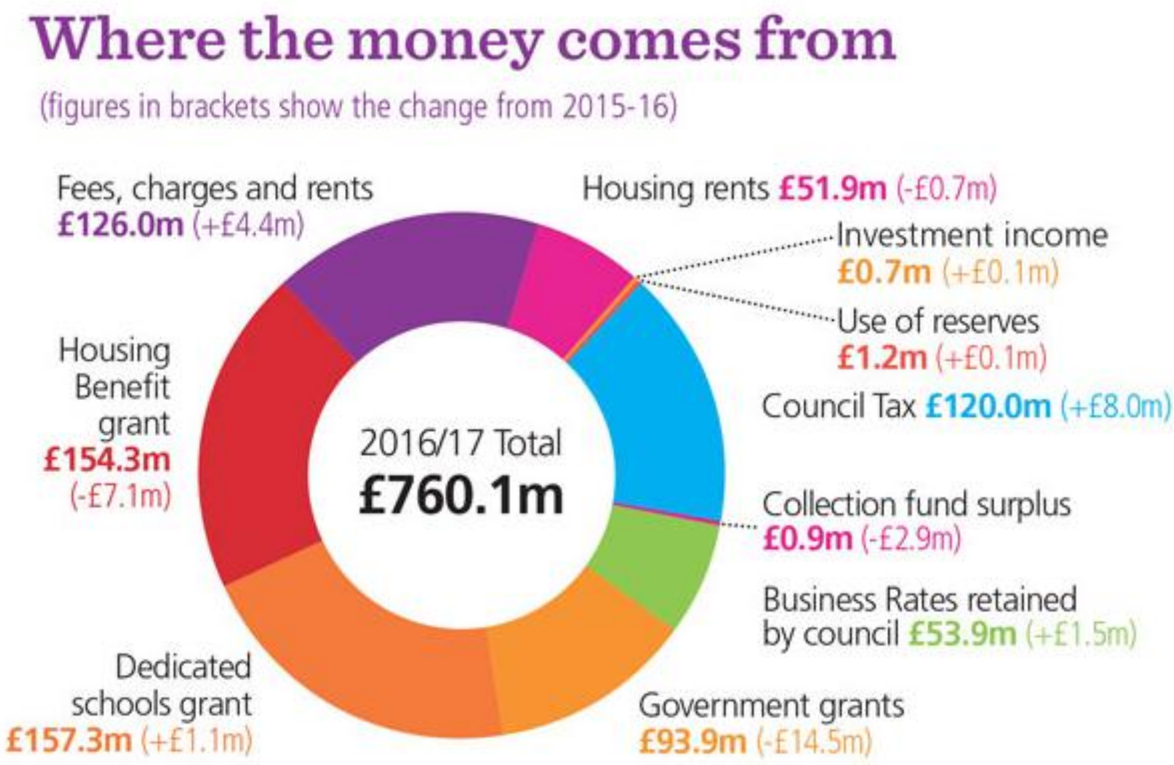
5. COMMUNITY ENGAGEMENT AND CONSULTATION

General Fund

5.1 Consultation on the Council's budget approach and strategy is often difficult to achieve because local government finance is not only very complex but there are also a very wide range of services (around 800 individual services). For example, few residents will be aware that of the council's £760 million expenditure, only around £120 million (16%) is funded by Council Tax and about £54 million by retained Business Rates (7%). Many services are funded by fees, charges or rents while others can be supported by government grants (e.g. schools and housing benefits). There is also a distinction between capital and revenue spending that is confusing and the council is also involved (often through its land holdings) in many schemes that are primarily funded through private finance. The sheer volume and scale of business and the wide array of funding and financing arrangements makes it very difficult for residents to know in all cases who or what is directly paying for or funding services or developments. This may partially explain why response rates to surveys, questionnaires, social media and events have been very low in previous years.

5.2 The council continues to provide information on its web site to attempt to convey information in a digestible format but inevitably this can only be understood by those who have the time or inclination to study the information. The two graphics below are the main communication tool used for conveying where council money is spent on services and where the money comes from.





5.3 The council has also provided simple 'budget animations' to help explain why our costs are growing and therefore why our budget gap (savings requirement) is growing in the context of reducing government grant funding. The council will also widely publicise the budget process through its online social media inviting residents and stakeholders to give us their views and ideas via the web site (email) and on Twitter via #BHBudget.

5.4 Generally, engagement and consultation on single or specific proposals is more straightforward and meaningful and this will always be undertaken separately for any significant proposal to change a service, for example, the recent consultations on changes to Learning Disability Services. The Council's decisions regarding budget (savings) proposals are therefore primarily a 'resource decision' in the first instance and are subject to appropriate consultation processes before being implemented. Detailed consultation will normally be undertaken alongside or following decisions of the Council and, where appropriate, reported back to a committee before any final decision is taken.

5.5 In previous years, various consultation and engagement processes have been put in place and these are proposed to continue, including:

- development of a communication campaign to encourage participation in the budget setting process through the media, social media and with staff;
- engagement at all stages with key stakeholders such as Community Works, Older People's Council, Youth Council, 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 specific meetings;

- cross party involvement in reviewing key financial and performance information to help inform discussions about prioritising expenditure and options for savings;
- refreshing the short ‘budget animation’ which many people find to be a useful and simple aid to understanding the council’s services and budget situation;
- distributing a budget questionnaire to around 3,000 randomly selected residents to provide statistically robust information on residents’ views on spending priorities, taxation, and fees and charges;
- engagement with statutory partners in the city through the City Management Board.

5.6 The cross-party Budget Review Group will keep under review the consultation and engagement process and receive updates from the various strands of engagement. Costs are expected to be within the current budget provision (£10,000).

Schools

5.7 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.

5.8 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 & Skills and Finance colleagues to ensure involvement and engagement of schools representatives in looking at considerations and options as proposals are developed.

5.9 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.

Fairness Commission

5.10 The Fairness Commission has now produced its report following its call for evidence. The report is available on the council’s web site and its findings and recommendations are provided for all members, city partners and residents to consider, including any potential changes to council services that may have financial implications that members would wish to address through the budget process.

6. CONCLUSION

6.1 The council is under a statutory duty to set its budget and council tax before 11 March each year. This report sets out the latest budget assumptions, process and timetable to meet the 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: 06/07/2016

Legal Implications:

7.2 The process of formulating a plan or strategy for the council's revenue and capital budgets is part of the remit of the Policy, Resources & Growth 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: Abraham Ghebre-Ghiorghis Date:07/07/ 2016

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, there may be a 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 the recommendations of the Fairness Commission will need to be considered.

Sustainability Implications

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

Any Other Significant Implications:

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 or demands for new spending. The budget process will include recognition of these risks (and options for their mitigation) in determining the 2017/18 budget.

7.7 Key factors (risks) for projecting the savings (budget gap) requirements for 2017/18 and future years will be taken into consideration including:

- An assessment of how robust and deliverable the savings currently contained in the 4 Year Integrated Service & Financial Plans are in the context of current demands, economic conditions and changing needs;

- The accuracy of tax base growth and other assumptions, particularly business rate appeals and the 2017 revaluation;

- The success and impact of the Better Care Fund programme and the new model of Children's Social Services on social care demand and costs in the short to medium term;

- The impact of Welfare Reform changes e.g. on temporary accommodation (homelessness). In particular, the impact of the reduction to the Benefit Cap in autumn 2016;

- The impact of economic conditions e.g. property price rises impact on temporary accommodation costs and care home provision and availability. Also, the buoyancy of many income streams can be affected by economic conditions. This is now potentially more volatile following the 'Brexit' decision, although the full impact of this will not be known for some time;

- The impact of demographic and other changes e.g. immigration, public health issues (e.g. obesity), drug improvements (e.g. dementia), increasing longevity with health conditions, etc.

SUPPORTING DOCUMENTATION

Appendices:

1. Budget estimates for 2017/18
2. Medium Term Financial Strategy Assumptions and Projections
3. Projected Capital Investment Programme

Documents in Members' Rooms

1. None

Background Documents

1. Budget files held within Finance

2. Comprehensive Spending Review 2015