

<b>Budget Council</b>	<b>Agenda Item 73</b>
28 February 2019	Brighton & Hove City Council

<b>Subject:</b>	<b>General Fund Revenue Budget, Council Tax and Capital Strategy 2019/20</b>		
<b>Date of Meeting:</b>	<b>28 February 2019</b> 14 February 2019 – Policy, Resources & Growth Committee		
<b>Report of:</b>	<b>Executive Director Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Nigel Manvell</b>	<b>Tel: 01273 293104</b>
		<b>James Hengeveld</b>	<b>01273 291242</b>
	<b>Email:</b>	<a href="mailto:nigel.manvell@brighton-hove.gov.uk">nigel.manvell@brighton-hove.gov.uk</a>	
		<a href="mailto:james.hengeveld@brighton-hove.gov.uk">james.hengeveld@brighton-hove.gov.uk</a>	
<b>Ward(s) affected:</b>	<b>All</b>		

## FOR GENERAL RELEASE

### 1 PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report contains the revenue and capital budget proposals for 2019/20 which is the final year of the 4-year planning framework introduced in 2016/17 and which is aligned with the current central government spending review period and 4-year funding deal.
- 1.2 The revenue budget proposals are based on a 2.99% Council Tax increase. The proposals include:
  - Re-investment of savings and other resources of £14.761m in order to support increased demands and above-inflation costs, most significantly across adults and children’s social care but also in City Environmental Services;
  - Provision of £5.655m to meet annual pay and price inflation increases;
  - A savings and efficiency package totalling £12.288m to enable the re-investments above.
- 1.3 The capital budget proposals include investments of £163.650m for 2019/20 as set out in the Capital Strategy at section 5 of the report and appendix 2.
- 1.4 In 2015 the council developed 4-year plans, referred to as Integrated Service & Financial Plans (ISFPs), covering the period 2016/17 to 2019/20. These have not been rolled-forward beyond 2019/20 because there is considerable uncertainty over local government finances beyond that point. In particular, the following may impact positively or negatively on the council’s future funding levels:
  - Fair Funding Review – this will fundamentally review the methodology used to derive the national distribution of local government funding;
  - Proposed 75% Business Rate Retention – this would increase retention of business rates locally from 50% to 75%. However, as this is intended to be fiscally neutral, it is not clear what existing funding this may replace but Public Health grant is a likely candidate;

- Comprehensive Spending Review (CSR) – the next 4-year government spending announcement will be made in autumn 2019 and will set the tone for future planning across local government;
- Addressing the long term funding of social care – government are reviewing a number of options but it remains to be seen if any will be taken up.

1.5 The 4-year ISFPs are refreshed annually to ensure that they take into account a number of factors including:

- Changes, up or down, in resource and funding assumptions, estimates and announcements;
- Changes in demography or demand predictions, particularly for social care, based on current trends and experience;
- Changes in the cost of services compared with initial pay and inflation assumptions.

Any or all of these can affect the projected budget gap each year and therefore the level of savings and efficiencies required to achieve a balanced budget.

1.6 The CSR 2015 confirmed the continuation of deficit reduction measures up to 2019/20 and indicated that government Revenue Support Grant (RSG) for this council would reduce by £39.574m over the 4 year period 2016/17 to 2019/20. This is one of the key determinants of the council's budget gaps over the period alongside growing costs and demands.

1.7 Although the council elected to accept the government's '4 year deal', this does not mean that the council's financial position is completely stable as there are other grants and funding that can change. For example, Education Services Grant of £2.895m has been removed and New Homes Bonus has varied each year. There was also a major revaluation of non-domestic rateable values in 2017 affecting the Business Rate tax base and yield. On the positive side, there has been funding through the Improved Better Care Fund (iBCF) and one-off Adult Care Support Grants alongside the ability for councils to choose to set Adult Social Care precepts of up to 8% on Council Tax over the period.

## **2 RECOMMENDATIONS:**

2.1 That Policy, Resources & Growth Committee recommends to Council:

2.1.1 The Administration's proposed budget and Council Tax increase on the Brighton & Hove element of the council tax, comprising:

- A general Council Tax increase of 2.99%;
- The council's net General Fund budget requirement for 2019/20 of £203.583m;
- The 2019/20 budget allocations to services as set out in the Budget book at Appendix 1 incorporating 2019/20 savings proposals contained in the 4-Year Integrated Service & Financial Plans;
- The reserves allocations as set out in paragraph 3.20 and table 3;

2.1.2 That Council notes the updated Medium Term Financial Strategy included in the Budget Book at Appendix 1.

2.1.3 That Council approves the Capital Strategy for 2019/20 at Appendix 2 comprising:

- The strategy for funding the investment in change and flexible use of capital receipts as set out in section 5;

- ii) The capital resources and proposed borrowing included at Annex 1;
  - iii) The Capital Investment Programme for 2019/20 of £163.650m included within the Budget book at Appendix 1 and incorporating allocations to strategic funds.
- 2.1.4 That Council notes the Equalities Impact Assessments to cover all relevant budget options and their cumulative effect as set out in Appendices 6 and 7.
- 2.1.5 That Council further notes the budget decision is an indicative resourcing decision to be taken in the context of the explanation in the Legal Implications paragraph 13.3.
- 2.1.6 That Council approves the Treasury Management Strategy Statement as set out in Appendix 3 comprising:
- i) The Annual Investment Strategy
  - ii) The Prudential and Treasury Indicators
  - iii) The Minimum Revenue Provision policy
  - iv) The authorised borrowing limit for the year commencing 1 April 2019 of £420m.
- 2.1.7 That Council notes that supplementary information needed to set the overall council tax will be provided for the budget setting Council meeting as listed in paragraph 8.3.
- 2.2 That Policy, Resources & Growth Committee agrees that Executive Director Finance & Resources be authorised to make any necessary technical, presentational or consequential amendments to this report before submission to full Council.

### **3 RESOURCES AND LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2019/20 AND THE 4 YEAR OFFER**

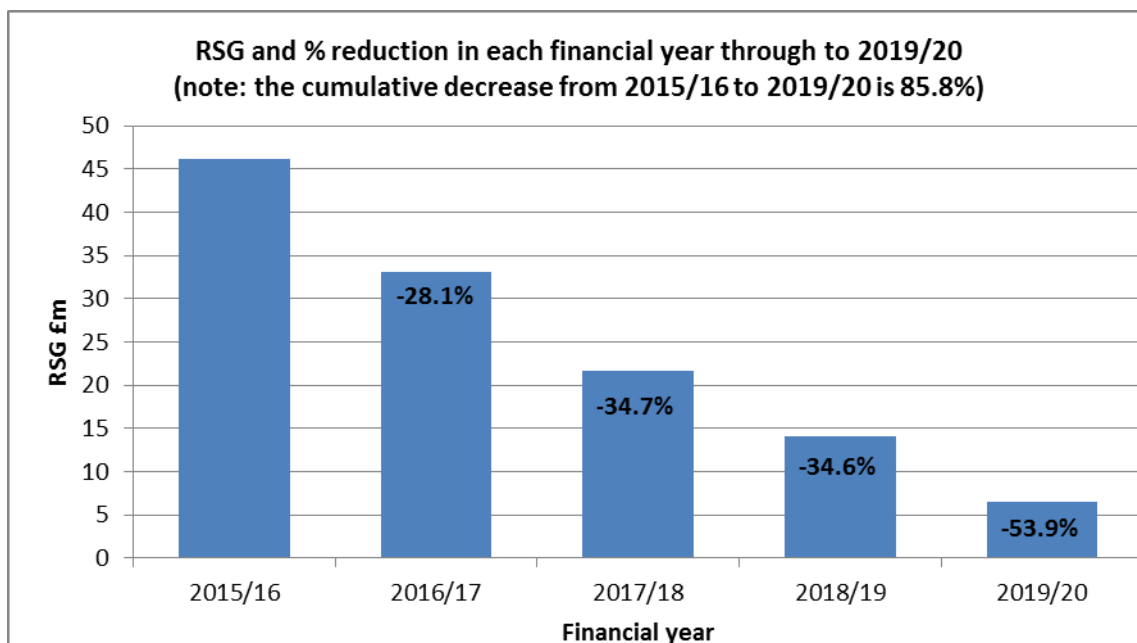
#### **Local Government Finance Settlement and Tax base Forecasts**

- 3.1 The final Local Government Finance Settlement (LGFS) was announced on 29 January 2019 and confirmed the council's Revenue Support Grant (RSG) for 2019/20 at £6.523m in line with the 4 year offer announced in December 2015.
- 3.2 The table below shows the 2019/20 funding assessment for the council compared to 2018/19 along with the national percentage change.

<b>Table 1: Funding Analysis</b>	<b>Final 2018/19 £m</b>	<b>Final 2019/20 £m</b>	<b>Increase / (Decrease) £m</b>	<b>Change %</b>
Revenue Support Grant (RSG)	14.144	6.523	-7.621	-53.9%
Government assumed business rates income retained by the council	56.884	58.187	+1.303	2.3%
Settlement Funding Assessment (SFA)	71.028	64.710	-6.318	-8.9%
<i>National SFA Change</i>				-5.8%

- 3.3 The government-assumed level of business rates retained locally is used in the grant calculation and is different from the actual business rates forecast to be collected locally shown in the Budget Book at Appendix 1.

3.4 The graph below shows the reductions over the 4 year offer period:



3.5 On the 13 December 2018 the government issued consultations on the Fair Funding Review and reforms to the Business Rates Retention system, both with a deadline for responses of 21 February 2019. These proposed changes to local government funding are key to determining the level of resources in future settlements and will impact on the council's budget from 2020/21. At this stage there is no detailed information regarding the potential impact on the council which therefore creates uncertainty and financial risk in predicting future years' resources. These risks are outlined in the Medium Term Financial Strategy.

3.6 The Local Government Finance Settlement included an announcement on New Homes Bonus (NHB). Previously the government had consulted on amending the threshold before which NHB would be paid, meaning that the council would not have received any additional NHB in 2019/20. However, the government ultimately decided not to amend the NHB baseline, keeping it at 0.4% in 2019/20, which provides the council with £0.236m additional funding compared to the assumption made in the December budget report. The NHB system will be amended from 2020/21.

3.7 The government is distributing £180 million of additional business rates income (from its levy surplus) to all local authorities on the basis of need. This will provide an additional £0.893m funding in 2019/20 and this has been used to support the budget position. The ongoing impact of changes to the levy will be assessed alongside the impact of any changes to the Business Rates Retention System and will be reflected in future resource projections following the outcome of government consultations.

#### **Adult Social Care (ASC) and Better Care Funding (BCF)**

3.8 The Chancellor of the Exchequer presented the Autumn Budget statement on the 29 October 2018. This included announcements of an additional £240m funding nationally for winter pressures in adult social care for 2019/20. This is a continuation of the winter pressures funding announced in September for the current year and provides £1.229m for the council in 2019/20. The chancellor also announced a

further £410m nationally for Adults and Children’s social care and an allocation of £2.100m has been made to this council for 2019/20.

- 3.9 The government confirmed within its 4-year settlement offer £1.5 billion additional funding for authorities to support Adult Social Care by 2019/20 to be provided through an Improved Better Care Fund (iBCF). This additional money is passed directly to authorities through a separate grant that takes into account each council’s ability to raise resources through council tax. The allocation for this council is £6.2m in 2019/20, an increase of £3m from 2018/19. The iBCF is separate from the original Better Care Funding that is pooled with local health partners. However, both will support integrated working across the health and social care system.
- 3.10 Government also made an announcement in the Spring 2017 Budget adding to the iBCF resources for 2017/18 to 2019/20. This added funding is provided on a one-off, tapered basis each year and must be added to the existing Better Care Fund pool and its deployment must be jointly agreed with the Clinical Commissioning Group. The allocations for this authority are £5.093m in 2017/18, £3.483m in 2018/19 and £1.733m in 2019/20, reducing to zero thereafter. Due to the high demand for Adult Social Care, a key risk with this one-off funding is that using these resources to support ongoing expenditure could therefore create a budget gap by 2020/21 if the funding were not replaced by alternative resources.
- 3.11 All additional funding for Adult social Care has been directed towards supporting the demand and cost pressures within the service. The table below summarises the resources available to support of Adult Social Care pressures:

<b>Table 2: ASC Resources</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Funding from taxation:</b>			
ASC Precept	3% £3.650m	3% £3.901m	0% -
<b>Funding allocations (potentially at risk beyond 2019/20)</b>			
Improved BCF	-	£3.188m	£6.220m *
ASC Support Grant (one-off)	£1.234m	£0.768m	-
Adult social Care winter Pressures		£1.229m	£1.229m *
Adults and Children’s Social Care Grant (one-Off) **			£2.100m *
Additional improved BCF (one-off)	£5.093m	£3.483m	£1.733m

\* *These resources are ongoing in principle but there have been no announcements regarding whether or not these will continue beyond the current Comprehensive Spending Review period. There is therefore a potential funding risk beyond 2019/20.*

\*\* *Although provided for Adults and Children’s social care, the budget proposals allocate 100% of this funding to Adult Social Care which is experiencing considerably higher demand and cost pressures than Children’s social care.*

### **Referendum Threshold**

- 3.12 The final Local Government Finance Settlement confirmed that the threshold at which an increase in council tax requires confirmation from a local referendum will

be 3%. Any proposal to increase council tax by 3% or above would need to be accompanied by an agreed substitute budget. This would need to be implemented if the increase were voted down by the electorate.

### **Forecast Business Rate Retention and Council Tax income for 2019/20**

- 3.13 Details of the likely business rate retention income forecasts were set out in the report to the January 2019 meeting of the Policy, Resources & Growth Committee. The council is forecast to receive £64.987m from its local share of business rates and section 31 compensation grants in 2019/20. This is an increase of £3.501m compared with 2018/19.
- 3.14 The Council Tax taxbase report was also agreed by this committee in January 2019. Assuming a Council Tax increase of 2.99% and taking into account changes to the taxbase, the total projected council tax income in 2019/20 is £143.679m. This is an increase of £5.822m compared with 2018/19.

### **Other Government Grants**

- 3.15 The grant allocations for 2019/20 have been included within the Budget Book at Appendix 1. Some grant allocations for next year have not yet been announced and where these are critical to the setting of the 2019/20 budget, an estimate has been included. There are some changes to grants in 2019/20 as follows:
- The reduction in Public Health Grant in 2019/20 of 2.6% has been confirmed, reducing the grant by £0.530m.
  - Housing Benefit Administration grant has reduced by £0.092m to £1.017m, a further reduction of 8.3%.
- 3.16 Government recently announced funding support for Local Government in preparation for EU withdrawal. This council will receive £0.210m for 2019/20. Government has indicated it will continue to assess and provide the necessary funding for new burdens falling on Local Authorities as a direct consequence of any additional requirements they may place upon them. This sum will be held within the risk provision for the purpose as detailed in section 9.

### **Fees and Charges**

- 3.17 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 corporate standard inflation rate (currently 2%), statutory increases, or actual increases in the costs of providing a service. Increasingly, linked to the council's approach to securing value for money in the provision of services, services are benchmarking non-statutory fees and charges with other providers and councils to ensure that charges are comparable and competitive within the local context, and can maximise income to protect essential services wherever feasible.
- 3.18 Non-statutory increases above the standard rate of inflation and changes to concessions or subsidies are normally considered by the relevant service committee in advance of budget proposals. Increases in fees and charges above the standard inflation rate are included within the Budget Book at Appendix 1.

### **Reserves Position and one-off funding**

- 3.19 As set out in section 9 of the report, the council's General Fund working balance is recommended to continue at a minimum of £9m to meet general risks applicable to a unitary authority. In addition, there are recommended financial risk provisions totalling £1.352m for 2019/20, giving total resources of £10.352m.

3.20 The following table shows the projected general reserves position and one-off resources assuming spending is in line with the latest projections for 2018/19 as shown in the Targeted Budget Monitoring (TBM) month 9 report. The table includes the release of specific reserves and other one-off resources to support the 2019/20 budget as detailed in paragraph 3.21.

<b>Table 3 – One-off Resources, Liabilities and Proposed Allocations</b>	<b>£m</b>	<b>£m</b>
Unallocated general reserves	0.140	
Revised estimate for cost of 2019 local elections	-0.100	
<b>Balance</b>		<b>+0.040</b>
<b>Revenue Budget position 2018/19 (TBM):</b>		
Forecast outturn overspend Month 9	-0.381	
Original 2018/19 financial risk safety net	+1.500	
Projected TBM outturn improvement (based on forecast trends)	+0.381	
<b>Projected Net Position at Outturn 2018/19</b>		<b>+1.500</b>
<b>Collection Fund<sup>1</sup> position 2018/19:</b>		
Estimated 2018/19 Council Tax collection fund deficit	-0.477	
Estimated 2018/18 Business Rates collection fund deficit	-2.084	
S31 grants to compensate for increased Business Rate reliefs	+0.358	
Royal Pavilion Business Rate rebate set aside to offset the council's share of the impact on the collection fund	+1.214	
<b>Projected Collection Funds position</b>		<b>-0.989</b>
<b>Other One-off Resources</b>		
Net Royal Pavilion business Rates rebate prior to 2018/19	+0.929	
Successful VAT claim on prior-year sports services income	+0.702	
Revised Small Business Rates Relief threshold compensation funding 2017/18	+0.140	
Government grant provision for EU Withdrawal	+0.210	
<b>Total Other One-off Resources</b>		<b>+1.981</b>
<b>Projected One-off Resources available at start of 2019/20</b>		<b>+2.532</b>
<b>Proposed One-off Allocations 2019/20:</b>		
Risk provisions for 2019/20 based on the Chief Finance Officer's review and recommendations (see Section 9 of the report)	-1.352	
Resourcing for Welfare Reform support	-0.260	
Resources to expand options for housing support services	-0.250	
Resources to support all year round Night Shelter provision	-0.250	
Council Tax Reduction Discretionary Fund	-0.140	
Relocation of the Multi-Agency Service Hub (MASH) from Woodingdean to John Street	-0.100	
Support to schools for 2018/19 Climate Change Levy costs	-0.095	
Local Cycling & Walking Infrastructure Plan	-0.075	
Contribution to Mary Jane Clarke statue planning and design	-0.010	
<b>Balance of One-off Resources</b>		<b>0.000</b>

<sup>1</sup> Collection Funds are separate accounts where taxation revenues received from the Council Tax and Business Rates are allocated and compared to the expected tax yield for the year.

3.21 More information on the one-off allocations in the table above is provided below:

- Risk provisions of £1.352m are in accordance with the review and recommendations of the Chief Finance Officer as set out in section 9;
- Support for the impacts of Welfare Reform in 2019/20: The allocation of £0.260m will provide for continuation of a range of advisory and signposting services as well as hardship and other discretionary social fund support as the council continues to assist vulnerable families and households through the implementation of national Welfare Reforms, particularly those impacted by changes such as the benefit cap.
- Additional resources of £0.250m to expand options to support people in emergency and temporary accommodation as recommended by Housing & New Homes Committee and approved by Policy, Resources & Growth Committee on 24 January 2019. It is intended to explore options for funding services on an ongoing basis in the 2020/21 budget process;
- Resources to support all year round Night Shelter provision: funding of £0.250m will enable a night shelter service to be delivered year round and enhance existing services to provide a wider range of services aimed at ultimately reducing the number of rough sleepers but in the short term providing support to address current pressures on the service. It is intended to explore options for funding this service on an ongoing basis in the 2020/21 budget process;
- Provision of £0.140m for the Council Tax Reduction Discretionary Fund to provide support for those in temporary hardship. This is on the evidence that discretionary funds are expected to be fully utilised in 2018/19;
- Resources of £0.100m to support the costs of relocation of the Children & Families Multi-Agency Service Hub (MASH) from Woodingdean to John Street, central Brighton enabling improved services and increased co-location opportunities e.g. with Sussex Police. The cost includes dilapidation commitments in accordance with the Woodingdean lease terms;
- One-off funding support of £0.095m for schools following late notification of additional Climate Change Levy costs. These costs emerged after the schools' budgets for 2019/20 were agreed and relate to the incorrect VAT categorisation of some utility bills resulting in retrospective costs in 2018/19. This funding will ensure that schools do not suffer additional unplanned pressures on already stretched resources.
- Local Cycling & Walking Infrastructure Plan: funding of £0.075m will support consultation, research and analysis for the development of a strategic cycling and walking plan for the city. It will identify cycling and walking needs and recommend necessary projects to improve the network, particularly cycling links, and promote and enable active travel. Infrastructure plans are also becoming a Department for Transport pre-condition for future funding bids. The plan is intended to be developed by Autumn 2019;
- Provision of a £0.010m contribution to the planning and design of a statue in honour of Mary Jane Clarke, a British Suffragette and sister of Emmeline Pankhurst, who worked in the Brighton area and who was resident in Brighton before her untimely death following imprisonment.

## **4 SAVINGS AND REINVESTMENT**

### **Overview of the 4-Year Financial Position**



4.1 The budget for 2019/20 will be the last budget within the current 4-year Comprehensive Spending Review (CSR 2015) announced by the government in 2015. CSR 2015 continued with challenging financial settlements for local government as the government pursued its policy of deficit reduction and austerity measures. Key features of the council's funding and finances over the period are set out in the table below which shows that the council has had to address three primary financial challenges as follows:

- the reduction of core government grant funding (Revenue Support Grant) of £39.574m over the period;
- providing for normal pay, pension and price inflation of £16.323m over the period to insure against real terms service reductions, and;
- most significantly, providing for re-investment in priority services to meet the identified growth in demand, above-inflation cost pressures (mainly social care) and, to a lesser extent, income shortfalls, with a combined total of £55.687m.

The above challenges, amounting to £111.584m over the 4-year planning period have had to be met from a combination of savings, taxation, and other resources (e.g. New Homes Bonus) and are summarised in the table below.

Table 4: 4-Year Summary	Year				4-Year Total
	2016/17	2017/18	2018/19	2019/20	
	£m	£m	£m	£m	£m
<b>Re-investment (Service Pressures):</b>					
Adult Social Care	6.648	5.799	6.152	11.100	29.699
Public Health (Grant Reduction)	1.096	0.521	0.651	0.640	2.908
Children's Social Care	2.648	3.384	3.286	1.467	10.785
Sustainable Social Care				(1.000)	(1.000)
Loss of other Core Grant Funding (mainly ESG) *	0.800	2.232	1.050	0.170	4.252
Homelessness	1.023	2.232	**	**	3.255
Additional cost of IT Infrastructure, Security and Resilience	0.857				0.857
Neighbourhoods, Housing & Community Services			0.444	0.319	0.763
2017 Business Rate Revaluation (on council properties)			0.347		0.347
City Environmental Services			0.120	1.083	1.203
All Other Priority Services	0.100	0.702	0.834	0.982	2.618
<b>Total Re-investment Required</b>	<b>13.172</b>	<b>14.870</b>	<b>12.884</b>	<b>14.761</b>	<b>55.687</b>
<b>Inflation Provision (Pay &amp; Prices)</b>	<b>2.913</b>	<b>3.067</b>	<b>4.688</b>	<b>5.655</b>	<b>16.323</b>
<b>Loss of Revenue Support Grant</b>	<b>12.971</b>	<b>11.508</b>	<b>7.474</b>	<b>7.621</b>	<b>39.574</b>
<b>Total Financial Challenges</b>	<b>29.056</b>	<b>29.445</b>	<b>25.046</b>	<b>28.037</b>	<b>111.584</b>

\* Service specific grant reductions result in a service pressure where there is no corresponding reduction or transfer of function.

*\*\* Homelessness service pressures in these years are mitigated by short term Housing Flexibility and Trailblazer grant funding.*

- 4.2 To contribute to these financial challenges, each year the council has been able to increase Council Tax up to government defined thresholds, which over the period has generated £31.7m additional revenues through a combination of annual Council Tax increases (totalling 9.96%), Adult Social Care precepts (totalling 8%) and a 7.6% growth in the taxbase (i.e. more housing). Business Rate retained revenues have also improved although this has been achieved through statutory annual inflation increases and has provided an increase in revenues of £6.8m over the period. However, even with the Adult Social Care precepts, increases in taxation revenues have not covered the loss of Revenue Support Grant and have provided only one third of the resources necessary to address the full range of financial challenges, which has therefore required identification of substantial savings for re-investment to maintain front-line and priority service provision.
- 4.3 To manage these financial challenges, the council developed a 4-year planning approach and Modernisation Programme to help it plan effectively over a longer term and drive through necessary service redesign and efficiency programmes that could help contribute to savings. Including 2019/20 proposals, the total savings provided over the period will total £69.046m or approximately 20% of the gross General Fund budget. The savings identified for re-investment in 2019/20 are £12.288m. The areas requiring re-investment in 2019/20 to meet the projected growth in demand, cost increases or income pressures are detailed below.

#### **Re-investment in Services 2019/20**

- 4.4 Re-investment in essential services is a critical element of the budget proposals. A key part of the budget process involves estimating and predicting the demand and cost of those services that are demand-led, statutory and support vulnerable people or communities. This primarily relates to adults and children's social care and homelessness services but other important services may also experience abnormal cost pressures from time to time. The consequential costs are growing year-on-year due to a range of factors including population demographics, increasing complexity of need, economic and market factors, and other cost factors such as the national living wage and increasing costs of safeguarding. In the context of reducing central government grant support, savings and efficiencies from across council services are therefore identified in order to provide re-investment into these priority service areas to maintain support for those who need them.
- 4.5 The assumptions take account of the underlying cost pressures being experienced in the current financial year, up to month 9, particularly in Adults and Children's social care but also in respect of cost and income pressures across the Environment, Economy & Culture directorate. These trends are projected forward alongside demographic data and planned changes in services. The total re-investment required to meet the pressures is estimated to be £14.761m in 2019/20 as detailed in the table below, which includes anticipated service pressure mitigation of £1.000m through the Sustainable Social Care modernisation programme. These allocations have been incorporated into the 2019/20 budget and included in the budget book at Appendix 1.

<b>Table 5 – Re-investments (Service Pressures) 2019/20</b>		
<b>Service Area</b>	<b>£m</b>	<b>Description</b>
Children’s Social Care	1.467	To support increasing demand and costs of Looked After Children. Re-investment is after taking account of cost containment measures totalling £0.645m.
Adults Learning Disabilities	2.105	To support increased costs in community care, manage new transitions into adult care, and cover sleep-in costs.
Adult Social Care	6.689	Changes in demand for physical, memory & cognition, and mental Health services. Provision is after taking account of cost containment measures totalling £1.702m.
Adult social Care	1.806	Reductions in improved Better Care Fund grant and CCG partner contributions.
Adult Social Care	0.500	Further re-investment provision for an anticipated reduction in CCG partner contributions of £1m in 2019/20 of which £0.5m is expected to be held-over to 2020/21.
Public Health	0.640	Reduction in ring-fenced grant. This must be matched by savings in the same service area.
City Environmental Management	0.423	Increased cost of weekend work for street cleansing and communal bin collection, including additional rounds as well as increased costs from market supplements for the recruitment & retention of drivers.
City Environmental Management	0.345	Income pressures on commercial operations including garden and commercial waste. This may be a short term pressure and performance will be monitored closely throughout 2019/20.
City Environmental Management	0.285	Similarly, there is an income pressure on commercial fleet maintenance. This may similarly be a short term pressure and will be monitored throughout 2019/20.
City Environmental Management	0.030	Managing the risks of Ash dieback which is accelerating nationally and locally.
Building Control	0.100	High income targets were set for this service which cannot be maintained in current market and economic conditions.
Commercial rents	0.150	There is an underlying pressure on rental income as lease reviews and renewals have not been able to keep up with inflation under current economic conditions.
Corporate Landlord	0.100	This relates to Business Rates increases on a range of council properties arising from the ending of transitional reliefs.
Security and Concierge	0.150	Provision of recurrent funding to support the current model of service requiring enhanced security cover.
Money works	0.200	Re-investment to support the important Community Banking Partnership and the

		council's Financial Inclusion Strategy.
Field Officers	0.169	Re-investment to provide for the full ongoing running costs of the new service which has proven successful during its first year of operation.
Seaside Homes	0.150	Seaside Homes provides 499 properties for which the council has full nomination rights. Under the terms of the contractual arrangements, the council must provide a rent guarantee where Local Housing Allowance (LHA) rates do not keep pace with inflation.
Coroners	0.070	Additional cost of a new pay structure for the service negotiated with the Ministry of Justice.
Electricity and Gas contract prices	0.212	Above inflation increases in Electricity and Gas contracts
Unringfenced grants	0.170	Re-investment is provided annually where government grant funding is reduced without any loss or transfer of function.
Sustainable Social Care Programme (SSC)	-1.000	The Sustainable Social Care programme is supported by Modernisation Fund resources and is expected to deliver a range of service, contract and process efficiencies that will enable the re-investment requirement across social care and related services to be reduced by £1m in total.
<b>Total Re-investments</b>	<b>14.761</b>	

### Savings Proposals 2019/20

- 4.6 Taxation increases and other sources of revenue have been largely offset by the reduction of government grant funding over the 4-year period. The primary source of funding for re-investment to meet cost and demand pressures has therefore been from savings programmes. The council has focused on identifying and delivering savings through its Modernisation Programme. This has been enabled through generating capital receipts from the sale of assets to create an invest-to-save budget, which the government's 4-year deal allowed councils to apply to revenue-saving projects and programmes.

The indicative allocations from the Modernisation Fund were included in the budget agreed by Full Council in February 2016 with updated allocations being advised and approved each year. The proposed resources for the Modernisation Fund are set out in detail in section 5 of the report. In 2019/20 the Modernisation Programme will support and enable the majority of proposed savings of £12.288m as well as providing significant investment to lever in longer term savings over the next 4 years. The broad categories of savings enabled by modernisation activities are as follows:

<b>Table 6 – Approach to Savings</b>		
<b>Savings Category</b>	<b>Rationale</b>	<b>Amount (£m)</b>
Service Redesign (including Digital)	Services can and should strive for cost efficient service delivery that provides good value for money. This means continually exploring opportunities including skills development, process redesign and utilising new technologies or digital investment to improve services and/or reduce operational costs.	3.461
Shared Service Partnership (Orbis)	The Orbis Shared Service with Surrey and East Sussex County Councils aims to achieve cost reductions across support functions through scale economies, sharing best practice and investing in improved and integrated processes and teams. There is also an Orbis Public Law shared service which includes West Sussex CC.	0.808
Commissioning & Demand management changes	These savings are achieved through expert re-commissioning of services, often in partnership with others, aimed at improving or maintaining outcomes for people at lower cost wherever possible.	3.555
Enterprise Strategy - Income Generation	The council continues to explore innovative business opportunities for generating income such as developing new chargeable services, benchmarking fees & charges to alternatives, or vying for public sector service contracts where practicable.	1.013
Procurement & Contract Management	The council is investing additional one-off resources of £1.100m over 3 years to drive value in the £300m+ spent on services provided by third party suppliers and providers by improving its management of contracts and contractors and seeking economies through re-procurement of goods and services.	2.847
Funding Changes (non-priority areas)	Funding changes and cost reductions in non-priority areas.	0.604
<b>Total Savings Package 2019/20</b>		<b>12.288</b>

4.7 The savings above are set out in detail for each service area within the Budget Book at Appendix 1. The above savings programmes include the following initiatives which generate revenue saving and also achieve cost avoidance.

- Management & Admin:** The council recognises that cost effective management and administration of services is critical to ensure that they are well-run, have good operational plans and can plan ahead for changes and improvements. Managers ensure that services manage within budget and are organised to meet performance targets and standards, and continue to seek improved value for money and customer satisfaction. The council has used its Management Spans & Accountability (MSA) programme to test its management levels and ensure that its management resource is reasonable, with sensible 'spans of control' and the minimum safe number of management layers. Similarly, admin arrangements are reviewed to ensure they are cost effective (e.g. pooling of support across teams or within services).

All service improvements and redesigns, including those within Orbis, continue to consider management and administrative costs and there are further savings proposed in 2019/20 which will see the deletion of approximately 20 full time equivalent (fte) management grade posts. Over the 4-year period, total staffing savings of £6.375m have been taken through the deletion of management posts across all services as follows:

2016/17: £1.954m (approx. 35 fte)

2017/18: £1.833m (approx. 33 fte)

2018/19: £1.470m (approx. 22 fte)

2019/20: £1.118m (approx. 20 fte)

Note, these do not include front-line 'professional level' posts such as social workers.

- **Welfare Support and Advice:** It is proposed to provide support for vulnerable people and families on low incomes by:
  - Continuing to provide discretionary funds for the Council Tax Reduction Scheme and the Local Discretionary Social Fund to help those suffering temporary hardships;
  - Providing Council Tax discounts for Care Leavers;
  - Providing further resources to support families severely affected by Welfare Reforms (particularly benefit caps) including help to move to sustainable tenancies, provision of benefit advice and support services;
  - Continuing to support the Community Banking Partnership and the local East Sussex Credit Union to provide accessible banking services and money advice, particularly in relation to Universal Credit roll-out;

The above can help to avoid greater longer term costs that can emanate from resulting homelessness, social care needs or impacts on income collection. In addition to resources already identified, further one-off resources of £0.260m are proposed to support Welfare Reform and £0.140m for the Council Tax Reduction Scheme discretionary fund as shown in Table 3 earlier. In future years, an option to provide permanent funding will be considered in the light of the government's Comprehensive Spending Review 2019.

### **Changes from the Draft Budget Proposals**

- 4.8 The draft budget proposals were submitted to the 6 December 2018 meeting of the Policy, Resources & Growth Committee. At that time a remaining budget gap of £2.150m was reported. The proposals submitted in this report update the draft budget for revised budget projections, assumptions and inflationary estimates and for changes in resources arising from a final review of the taxbases (for the January Policy, Resources & Growth Committee) and from the final Local Government Finance Settlement.
- 4.9 This report also reflects changes to savings proposals within the Budget Book at Appendix 1 and identifies new or additional investments in priorities following ongoing consultation and engagement in respect of all aspects of the draft budget proposals.
- 4.10 In summary, the main changes are:

- Additional resources through the Local Government Financial Settlement from redistribution of the national Business Rate Levy surplus of (£0.893m) and no change to the New Homes Bonus threshold (£0.236m);
- Additional resources from final determination of the Council Tax and Business Rate tax bases for 2019/20 of (£0.679m);
- Recognition of the part-year effect of the £1.000m reduction in Clinical Commissioning Group funding whereby (£0.500m) will now be deferred to 2020/21;
- Additional Management & Administration savings proposals of (£0.153m);
- Additional income from statutory changes to Registrar Service fees & charges by the General Register Officer of (£0.200m);
- Additional resources from the Empty Homes premium approved by Policy, Resources & Growth Committee (£0.109m);
- Revised inflation provision for City Environment Management services for contractual pay elements and a market supplement for recruitment & retention of drivers totalling £0.320m;
- Removal of Violence Against Women & Girls commissioning saving of £0.050m;
- Increased price of gas and electricity contracts of £0.212m;
- Other net adjustments to commitments and estimates of £0.038m.

Overall, the changes since the draft budget report enable the budget gap to be closed and a balanced budget to be presented.

### **Staffing Implications (General Fund Services)**

- 4.11 As conveyed at the draft budget stage a broad estimate is that in 2019/20, approximately 70 posts are expected to be removed from the council's staffing structure as a result of the savings proposals set out in Appendix 1. However, actual numbers will be dependent on the detailed options proposed and on the results of formal consultation where required. As previously experienced, it is likely that the majority of these posts are already being held vacant and some will become vacant through normal turnover.
- 4.12 It is planned to support staff at risk of redundancy through:
- Providing appropriate support to staff throughout the change process to enable them to maximise any opportunities available;
  - Controlling recruitment and ensuring there is a clear business case for any recruitment activity;
  - Managing redeployment at a corporate level and maximising the opportunities for movement across the organisation;
  - Managing the use of temporary or agency resources via regular reports to Directorate Management Teams (DMT's).

These measures will remain in place as work with trade unions and staff continues.

- 4.13 Whilst the focus will be on redeployment of staff, every effort will be made to reduce the impact of the proposals, including offering voluntary severance where appropriate to staff affected by budget proposals on a case by case basis. This targeted voluntary approach to releasing staff in areas undergoing change will be

managed to support service redesigns whilst ensuring that the organisation retains the skills that will be needed for the future.

## **5 CAPITAL STRATEGY 2019/20**

- 5.1 The revisions to the Prudential Framework have introduced the requirement for local authorities to produce an additional report called the Capital Strategy which is to be presented and approved by members each year. The purpose of the Capital Strategy is to provide a single place for transparency and accountability of local authority non-financial investments and its capital investment programme, including any commercial investments in commercial property or loans to third parties.
- 5.2 The aim of the Capital Strategy is to ensure members are fully conversant with the risks of non-financial investments and are aware of how the risks are proportional to the council's core service activity. The document will include:
- The proposed Capital Investment Programme including Modernisation Programme resourcing;
  - The Governance & Risk Framework;
  - Potential and pending non-financial investments;
  - An overview of the council's Risk Exposure.

### **Major Capital Investment Programmes**

- 5.3 **Education:** The government announced 3-year allocations up to 2017/18 for new pupil Basic Need of £12.039m for 2015/16, £12.641m for 2016/17 and £11.445m for 2017/18. The government has announced Basic Need for 2018/19 and 2019/20 and the council will receive a nil funding allocation in both years. However, further Education Capital Maintenance funding of £5m is anticipated subject to confirmation.
- 5.4 **Housing:** The Housing Revenue Account (HRA) Capital Programme elsewhere on this agenda includes investment proposals that aim to create a long-term sustainable asset base that best meets the needs of residents and the City as a whole. The HRA capital strategy focuses on meeting council priorities through building new homes and improving the quality, safety and sustainability of the existing housing stock. The HRA capital strategy includes substantial investment of £46.585m in the housing stock and new homes in 2019/20 and aims to ensure that investments reach beyond the housing service and contribute to regeneration, tackling inequality, creating training and employment opportunities and improving sustainability.
- 5.5 The council has also entered into a Living Wage Joint Venture with Hyde Housing to deliver up to 1,000 new lower cost rental and sale homes. The original business plan includes up to £120m investment with the council providing half of that funding through borrowing and capital receipts with no net cost to the council and all net costs being met through the Joint Venture business plan.
- 5.6 **Sustainable Transport:** The council secures capital funding for transport schemes through the government's Local Transport Plan (LTP) process. The LTP provides support for the council's strategic transport objectives and the city's Sustainable Community Strategy. LTP funding has been announced for 2019/20 at £5.169m. The council also successfully bid for Local Highways Maintenance Challenge Fund support, which together with £7m additional investment from borrowing, capital receipts and LTP funding will support the £19m West Street Shelter Hall reconstruction and development project. The Street Lighting Invest- to-Save project



has also been included within the Capital Investment Programme and includes £6.5m of investment over 2 years from a combination of borrowing and LTP contributions. A detailed Local Transport Plan report is expected to be presented to Policy, Resources & Growth Committee in March 2019.

- 5.7 **Royal Pavilion and Stanmer Estates:** The council has developed ways of providing major capital investment in the city by working with partners, for example, the Heritage Lottery Fund (HLF), Arts Council England (ACE) and the Coast to Capital Local Enterprise Partnership (C2C LEP). Recent bids include Arts Council, LEP funding and HLF funding totalling £12.922m towards the £22.945m phase 1 capital works for the Royal Pavilion Estates Regeneration project. Other resources for this project include external fundraising and match funding from the council and Brighton Dome & Festival Ltd. Further bids to HLF will be prepared and submitted for subsequent phases of the works including phase 2 and 3 which were reported to this committee in November 2017.

A development grant from the HLF of £3.790m (Parks for People grant) has also been awarded to develop detailed plans to support the Stanmer Estate Restoration Project proposals. This has been supplemented with capital receipt funding and the profiled investment in 2019/20 is £6.756m.

- 5.8 **Madeira Terraces:** there is currently capital investment of £2.440m identified to support restoration of the Madeira Terraces including work on the first three crowdfunded arches at the western end of the terrace. The council is working towards an on-site start date of spring 2019 and is exploring further funding options for more extensive restoration.
- 5.9 **Local Growth Fund:** In addition to the successful Royal Pavilion phase 1 bid, Local Growth Fund has been awarded from the Coast to Capital Local Enterprise Partnership (LEP) to support investment for Valley Gardens Phases 1 & 2 at £8.0m. There are also in-principle awards of £6.0m for Valley Gardens phase 3 and a confirmed award of £12.1m towards the Brighton Waterfront development.
- 5.10 **Strategic Funds:** The council sets aside resources for a number of strategic funds that enable it to underpin other strategies including regeneration schemes, Asset Management Plans and its IT&D Strategy and infrastructure. The planned allocations to strategic funds are as follows:
- 5.11 Strategic Investment Fund (SIF) - it is proposed to continue to allocate £0.250m to the Strategic Investment Fund each year. The council has ongoing commitments to major projects that require financial support to enable and expedite their progression. This support takes the form of project management, legal fees and specialist advisors for finance, design, architectural, transport, engineering and other external specialists.
- 5.12 IT&D - it is proposed to continue to allocate £0.500m resources per annum to the Information Technology & Digital (IT&D) Fund which provides a minimum level of investment to continually maintain the council's IT infrastructure, networks, security and equipment. This is augmented with additional capital investment in years where major infrastructure investment is required. In this respect, significant investment is required in 2019/20 to upgrade the network, Wi-Fi and a wide range of equipment and infrastructure in relation to the need to migrate to the Windows 10 operating environment due to support for Windows 7 ending in 2019. This requires investment of £3.111m, which can be financed from low cost PWLB borrowing and will increase financing costs from 2020/21 as reflected in the Medium Term Financial Strategy.

- 5.13 Asset Management Fund (AMF) - it is proposed to continue to allocate £1.0m resources per annum to the Asset Management Fund. The AMF includes expenditure on a range of properties covering, fire safety, health & safety, Equalities Act 2010 responsibilities and general improvements. Allocations from the AMF will be subject to a further report to PR&G committee as normal.

### **Modernisation Programme**

- 5.14 Modernisation Programme investments have been incorporated into the Capital Strategy alongside new and perennial capital investments that will support major regeneration projects, improved transport infrastructure, provision for school places, and major housing improvements and new build programmes. Key decisions are required in respect of strategic funds including IT & Digital investment, Strategic Investment Funds (supporting regeneration) and Asset Management Funds. The Capital Strategy provides a link between capital and revenue decisions and ensures that budget resourcing decisions are taken in the context of the full range of proposed revenue and capital budgets, resources, investments and savings. The Capital Strategy is at Appendix 2.
- 5.15 The Modernisation Programme is a key element of the Capital Strategy and utilises the government's 'capital receipt flexibilities' to provide funding for invest-to-save activities that generate longer term efficiencies and cost savings. For 2019/20, investment of £9.957m is planned as follows:
- **4-Year Integrated Service & Financial Plans (ISFPs):** a requirement of £3.620m has been identified by services to support implementation of specific service changes, recommissioning and service redesigns as identified in the Integrated Service & Financial Plans.
  - **Digital First:** Investment in digital services, licenses, application and web platforms and the necessary expertise is important to continue to improve and development the council's digital presence and the accessibility and efficiency of on-line services. Further investment of £1.058m is required in 2019/20 to maintain web content, manage the growing digital infrastructure (e.g. Mendix) and continue development of web forms, apps and integration with line-of-business systems.
  - **Modernisation Resources:** effective implementation of the 4-year plan savings requires good project management support and the co-ordination, tracking and planning of a wide range of activities from legal support to consultation and engagement activities. Business Process review and analysis skills are also required across a wide range of services as well as augmentation of the council's Procurement and Contract Management team to help drive through savings. There are also a number of cross-cutting improvement programmes including Procurement & Contract Management, Corporate Debt Recovery, 'Workstyles' agile & flexible working and the People Promise development programme that are supported. The total investment requirement in 2019/20 is estimated at £2.056m.
  - **Managing staffing changes:** managing changes in the level of staffing needs financial consideration with a substantial number of posts expected to be deleted from the council's staffing over the 4 year period. This will happen through a mixture of normal turnover, redeployments and voluntary severance.

Estimated resources of £1.323m are required in 2019/20 to meet severance costs.

- **Sustainable Social Care:** The council will be investing in improvements to its management of costs around children's and adults social care. This has no impact on eligibility criteria or the council's statutory duty to assess and meet need. Instead, this involves reviewing social care practices and procedures, improving commissioning efficacy with partners, improving the quality and use of data to scrutinise costs and activity, and ensuring regular and effective reviews of care packages while ensuring that vulnerable people are not disadvantaged, assessed needs continue to be met and that good quality services remain in place. This requires substantial investment in digital data capture (including digital self-serve), data analytics and critically, data integration across services, including telecare, to ensure services and care pathways can operate at optimum cost versus outcome. Investment of £1.900m is planned with a prudential ongoing cost avoidance target of £1.000m in 2019/20. This alone would generate savings of £4.000m over the next 4 years but the full-year effect saving in 2020/21 is expected to be considerably higher, further improving the return on investment.

The above resources underpin achievement of the £12.288m 2019/20 savings proposals and the £1.000m Sustainable Social Care cost avoidance target. These are recurrent savings which will result in cumulative savings of £53.152m over the next 4 years, representing a good return on the one-off investments identified above.

- 5.16 If approved, these resources will create a Modernisation Fund budget which is allocated in accordance with the planned investments above. However, in the case of 4-year ISFP, Digital First and Sustainable Social Care investments, these are held in a reserve awaiting consideration of full business cases by the Corporate Modernisation Delivery Board (CMDDB). The CMDDB is an officer board chaired by the Chief Executive officer. Where business cases demonstrate a good return on investment and are agreed in principle by the CMDDB, the release of resources will be in accordance with the council's Standard Financial Procedures, which in some cases will require approval of Policy, Resources & Growth Committee. Member oversight of Modernisation Fund investments is provided through the Member Oversight Group (MOG).

## **6 BUDGET BOOK AND MEDIUM TERM FINANCIAL STRATEGY 2019/20**

- 6.1 The 2018/19 Budget Book has been revised and improved and is available on the council's web site. The 2019/20 Budget Book at Appendix 1 follows this revised format and will aid understanding and transparency by providing:
- Information at sub-divisional levels to aid understanding of the wide range of services and teams in each directorate;
  - Analysis of spending and income by category (subjective analysis);
  - Staffing information for each service;
  - Analysis of budget movements between years;
  - Analysis of savings and re-investments (service pressures) by category;
  - Information on capital investments.

- 6.2 The Medium Term Financial Strategy (MTFS) planning assumptions, resource and expenditure estimates are also included within the Budget Book at Appendix 1. The MTFS does not reflect the proposed changes to retaining 75% Business Rates Retention or any assumptions regarding the forthcoming Fair Funding Review and therefore the impacts are assumed to be cost neutral at this stage.
- 6.3 The MTFS has been revised to reflect the latest cost, income and demand pressures and the proposed 2.99% council tax increase. The Table below shows how the budget is expected to change from 2018/19.

<b>Table 7: Analysis of budget changes</b>	<b>£m</b>
<b>Revised 2018/19 base budget</b>	<b>208.824</b>
Pay and Inflation	5.655
Commitments (net change)	-0.987
Reduction in New Homes Bonus	0.877
Increased Social Care grant funding	-5.593
Increased Section 31 Business Rates compensation grant funding	-3.563
Reinvestment in services	14.761
Change in contribution from reserves	-4.103
Savings package 2019/20	-12.288
<b>Proposed Base Budget 2019/20</b>	<b>203.583</b>

## **7 TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY**

- 7.1 The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) are now incorporated in the budget report to ensure that inter-related financial decisions and strategies can be considered together. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed (liquidity). Surplus monies are invested into counterparties and instruments commensurate with the council's risk appetite.
- 7.2 Another important function of the treasury management service is the funding of the council's capital plans. The capital plans provide a guide to the borrowing need, which is essentially the longer term cash flow plan, to ensure the council can meet its approved capital spending obligations.
- 7.3 The recommended TMSS at Appendix 3 follows the drafting format recommended in the Treasury Management Code of Practice. The Treasury Management Practices and schedules identify the practices and procedures that will be followed to achieve the aims of the TMSS and that underpin the council's Treasury Management function. These practices remain unchanged from previous years and are considered 'best practice' under the Code.
- 7.4 The Annual Investment Strategy (AIS) for 2019/20 is also incorporated within Appendix 3 to this report. The AIS gives priority to security and liquidity.
- 7.5 Security is achieved by:

- selecting only those institutions that meet stringent credit rating criteria or, in the case of non-rated UK building societies, have a substantial asset base; and
- Limiting the amount invested with any one institution.

7.6 Liquidity is achieved by limiting the maximum period for investment and matching investment periods to cash flow requirements.

7.7 The changes in the investment strategy are shaded within Appendix 3. There have been two changes from the strategy approved for 2018/19:

1. The limit for pooled funds (including Money Market Funds) have been increased from £10m per fund to £15m per fund. At a time where cash balances are high and expected to grow going into 2019/20 as a result of undertaking borrowing to replace a previous RBS debt, this provides further liquid capacity to enable officers to manage cash more efficiently.
2. Within Annex A, three further UK counterparties have been added to the approved counterparty list. These counterparties meet the minimum credit criteria of the strategy and will provide further opportunity for diversification and competitiveness across the investment portfolio.

## **8 COUNCIL TAX SETTING**

8.1 The Administration is proposing a council tax increase of 2.99% which is below the threshold that requires a referendum. A council tax increase of 2.99% results in a Band D council tax of £1,595.45 for the council's element, an increase of £46.38 from 2018/19.

8.2 In order to propose an overall Council Tax for the city, the Council Tax set by the precepting authorities needs to be known and this information will be included in the Supplementary Budget Report to Budget Council.

### ***Supplementary Budget Report to Budget Council***

8.3 Not all the budget and council tax information needed to set the budget and council tax is available at present. Therefore, additional information will need to be provided for Budget Council; this will include:-

- Any other grants that are announced before Budget Council.
- The agreed Council Tax set by East Sussex Fire Authority and Sussex Police and Crime Commissioner.
- The statutory Council Tax calculations required under the 1992 Local Government Finance Act.
- The full budget and Council Tax resolution for Budget Council.

## **9 REPORT OF THE CHIEF FINANCE OFFICER (SECTION 151) UNDER SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003**

9.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report has to be considered by the Policy, Resources & Growth Committee and the full Council as part of the budget approval and council tax setting process. The budget reports on this agenda are focused on the General Fund Revenue Budget 2019/20 and the Capital Strategy. It also considers key

medium term issues faced by the council and provides an updated Medium Term Financial Strategy.

### ***Robustness of Estimates***

- 9.2 There is inevitably an element of judgement in drawing up budget estimates of expenditure and income which are made at a point in time and may change as circumstances change. This statement about the robustness of estimates cannot give a complete guarantee about the budget but provides the council with reasonable assurance that the budget has been based on the best information and assumptions available at the time, particularly in relation to demand-led budget predictions, and has considered identifiable risks.
- 9.3 For 2019/20, re-investment of £14.761m has been provided to meet identified service pressures across adults and children's social care and other priority areas. This level of re-investment substantially meets predicted demand-led service pressures at the time of setting the budget and follows on from very significant re-investment over the 4-year period as set out in Table 4 above. This considerably lessens potential forecast risks in 2019/20 and therefore the level of any risk provisions required over and above the council's current working balance. In addition:
- The authority continues to demonstrate its track record of managing within or close to budget despite challenging targets. At month 9 this year, the forecast overspend continues to reduce and now stands at £0.381m and is expected to achieve break-even by year-end;
  - The authority continues to achieve substantial savings through its Modernisation Programme which have enabled re-investment to meet cost and demand pressures and address budget gaps;
  - Although there are risks in relation to Section 75 partnership arrangements and pressures on Clinical Commissioning Group budgets, including the Better Care Fund, the authority works closely with the Clinical Commissioning Group to jointly manage and mitigate risks;
  - The authority has maintained adequate reserves and provisions against other known and identified risks and has not made unplanned drawdowns of reserves or balances;
  - The authority has set aside appropriate one-off, discretionary resources and funding to mitigate the impacts of Welfare Reforms including a Council Tax Reduction Scheme discretionary fund.
- 9.4 Based on financial performance over the 4-year plan period and taking into account identified risks as set out in Appendix 5, one-off risk provisions of £1.352m are recommended as shown in the table below. The council is also recommended to maintain its minimum working balance of £9m as well as other earmarked reserves to manage any short term pressures, billing risks, civil contingency risks, and general legal or appeal risks.

<b>Table 8 – Risk Provisions 2019/20</b>		
<b>One-off Financial Risk Provisions:</b>	<b>£m</b>	<b>£m</b>
Potential increase in Unaccompanied Asylum Seekers (UASC)	0.150	
Adult Social Care funding and demand risk provision	0.500	
Financial risk safety net provision	0.442	
Life Event income risk	0.050	
EU Withdrawal risk provision	0.210	
Sub-total one-off risk provisions		1.352
General Fund Working Balance		9.000
<b>Total General Fund Balance</b>		<b>10.352</b>

9.5 The details of the recommended risk provisions are set out below:

- **Potential increase in Unaccompanied Asylum Seekers (UASC):** There is current evidence of increasing activity regionally that the Families, Children & Learning service will endeavour to manage within available core funding and UASC grant funding. However, a minimum risk provision of £0.150m is recommended to provide a safety net.
- **Adult Social Care funding and demand risk provision:** This provision will be held against general demand, cost and funding risks across Adult Social Care which has been under considerable pressure during 2018/19. If not utilised, it could provide for the full year effect of the CCG funding reduction (£0.500m) in 2020/21.
- **Financial risk safety net provision:** This provision is recommended to cover general financial performance risks including achievement of savings, forecast risks, and would be a first call if 2018/19 financial performance results in a year-end overspend. Financial performance, including achievement of savings, is monitored through the Targeted Budget Management (TBM) process.
- **Life Events income risk:** There has been a statutory increase in Registrars fees & charges which is expected to generate circa £0.200m after taking into account potential impacts on demand of the higher fee rates. However, there is some risk in assessing demand elasticity for a price rise on this scale and therefore a risk provision of £0.050m is recommended to manage demand risk.
- **EU Withdrawal:** The government has provided unitary authorities with £0.210m toward potential EU Withdrawal costs. It is proposed to hold this within the risk provision for allocation by the Executive Director of Finance & Resources as appropriate.
- **General Fund Working Balance:** The working balance must last the lifetime of the authority and the level is recommended to remain at £9m which is approximately 4% of the General Fund and represents around 3½ weeks council tax income. The working balance must mitigate general legal and financial risks including appeals and challenges, as well as potential billing failures, civil contingencies and other emergencies.

### ***Adequacy of Reserves***

- 9.6 The recommendation on the prudent level of General Fund working balance has been based on the robustness of estimates information and a risk assessment of the budget provided at Appendix 5.
- 9.7 As indicated above, current analysis of authority-level risks indicates that a working balance at a level of £10.352m, including one-off risk provisions in Table 8 above, is prudent having taken into account all known and foreseeable risks in relation to the 2019/20 budget.
- 9.8 All specific reserves have been reviewed in detail to ensure they are set at an appropriate level as set out in Appendix 4. The council's earmarked reserves fulfil specific legal or financial requirements, for example the Insurance Fund Reserve, and are not therefore available to support the annual revenue position.

### ***Assurance Statement of the Council's Section 151 Officer***

- 9.9 In relation to the 2019/20 General Fund revenue budget, the Section 151 Officer has examined the budget proposals and considers that, whilst the spending and service delivery proposals continue to be challenging, they are nevertheless achievable with effective governance and accountability at all levels. The 2018/19 financial position indicates that the council is continuing to manage its financial risks without over-reliance on risk provisions. The council will continue its focus on strengthening budget accountability, managing demand effectively, and localising risk management in services rather than reliance being placed on corporate solutions or unilateral controls.
- 9.10 In terms of the adequacy of reserves, the Section 151 Officer considers a working balance of £10.352m for 2019/20 to be adequate, taking into account other available reserves and the council's track record in budget management.

### ***Schools Funding and Balances***

- 9.11 School Governing Bodies operate with the local Scheme for Financing Schools. The level of school balances as at 31/03/18 was £2.003m, an increase of £0.710m from the £1.293m as at 31/03/17. The £2.003m balance is split across phases as follows:-

<b>Phase</b>	<b>2017/18 £'000</b>	<b>Percentage of budget 2017/18</b>	<b>2016/17 £'000</b>	<b>Percentage of budget 2016/17</b>
Nursery	53	8.43%	7	1.89%
Primary	2,512	3.48%	1,584	2.19%
Secondary	(484)	(0.93%)	(134)	(0.25%)
Special and Alternative Provision (AP)	(78)	(0.71%)	(164)	(2.92%)
Total	2,003	1.47%	1,293	0.94%

Note – Special includes the Connected Hub and Pupil Referral Unit (PRU)

- 9.12 While it remains the government's intention that a school's budget should be set on the basis of a single national formula, in 2019/20 local authorities continue to determine final funding allocations for schools through a local formula. The national funding formula will set notional allocations for each school, which will be



aggregated and used to calculate the total schools block received by each local authority.

- 9.13 In 2018/19, nationally there has been considerable movement in local formulae towards the schools national funding formula. 73 local authorities have moved 'factor values' in their local formulae closer to the national funding formula, with 41 mirroring the national funding formula values almost exactly. 62 local authorities have set their minimum funding guarantee at 0.5%, meaning all schools in that area will gain in cash terms per pupil compared to 2017/18, and 112 local authorities have brought in a minimum per pupil funding factor, mirroring its introduction in the national funding formula. There has therefore been significant progress across the system in moving towards the national funding formula in its first year. In light of this progress, the DfE have confirmed that local authorities will continue to determine local formulae in 2020/21.
- 9.14 In summary, the approach agreed with the Schools Forum on the application of the formula for 2019/20 in BHCC will:
- reduce lump sum allocations from £150,000 to £130,000 per school with the balance of funding being re-allocated through the deprivation and low attainment factors;
  - change the factor being used to identify deprivation from solely free school meals to a combination of free school meals, over-6 free school meals and the income deprivation affecting children index (IDACI);
  - ensure all secondary schools will attract minimum per-pupil core funding of £4,700, and all primary schools £3,400 (core funding excludes funding for premises and growth);
  - apply a minimum funding guarantee (MFG) of minus 1.5% per pupil to dampen the financial impact of schools experiencing lower roll numbers;
  - seek to maintain the current funding ratio between primary and secondary.

## **10 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 10.1 The budget process allows all parties to engage in the examination of budget proposals and to put forward viable alternative budget and council tax proposals to Budget Council on 28 February 2019. Budget Council has the opportunity to debate the proposals put forward by this Committee at the same time as any viable alternative proposals.
- 10.2 Any alternative proposal will need prior assessment by the Section 151 Chief Finance Officer and will not normally be allowed where an estimate is not considered to be robust for one of the following reasons:
- i) The risk of not achieving the saving is assessed to be high;
  - ii) There is insufficient evidence or information to assess the potential saving;
  - iii) The alternative proposal is adding to or bringing forward an existing saving without further information as to how this can be achieved;
  - iv) The alternative proposal requires one-off investment or loan financing that cannot be supported;
  - v) The alternative proposal is beyond the powers and duties of the local authority.

## **11 COMMUNITY ENGAGEMENT & CONSULTATION**

- 11.1 General information and advice about the council's budget will continue to be provided through the council's web site which answers common questions ('Behind

the Budget’), provides information about spending on services and where the money comes from as well as links to key financial statements and committee reports.

- 11.2 The council has also widely publicised its online social media inviting residents and stakeholders to give us their views and ideas on Twitter via #BHBudget. Social media continues to be a key, low cost, mechanism for engaging with residents and other stakeholders. Key proposals from the 4 year plan will be publicised, along with information about council services, and questions and comments invited from residents immediately following their publication over the period leading to the February Policy, Resources & Growth Committee meeting.
- 11.3 Frequently asked questions and common themes emerging throughout the development of the budget have been monitored and responded to in our ‘Behind the Budget’ web page: <https://www.brighton-hove.gov.uk/content/council-and-democracy/council-finance/behind-budget>
- 11.4 The frequently asked questions and themes include:
- Doesn’t Council Tax [alone] pay for all council services?
  - How about using [i.e. raising] parking charges further?
  - [Why not] Cut pay instead of services?
  - [Why not] Make students pay Council Tax?
  - [Why not] Just cut councillors and/or their allowances?
  - [Why not] Charge wealthier people more Council Tax?
  - Extra Business Rates will solve the problem [won’t they]?
- 11.5 Consultation and feedback in relation to the 2019/20 budget proposals is also promoted and invited from all quarters through a range of engagement processes including:
- Ongoing discussions with key City Partners in developing proposals including discussions about associated Equality Impact Assessments. Feedback has been provided directly to services and members as appropriate.
  - The Schools Forum, attended by representatives of all school phases, where a report on the potential areas of interest and potential impact of the General Fund budget proposals were discussed at a meeting on 16 January 2019. This is a public, minuted meeting and agenda and minutes are available on the council’s website.
  - Meetings with Trades Unions branch secretaries and Departmental Consultative Groups (DCGs) which provided an opportunity for consultation with Trades Unions’ representatives across all council services.
  - Invitations to representatives of the business community to discuss budget proposals and changes to business rates and reliefs.

## **12 CONCLUSION**

- 12.1 The council is under a statutory duty to set its budget and council tax before 11 March each year. This report sets out the budget assumptions to be used as the basis for Council Tax calculations in order to meet the statutory duty. The budget proposals cover a 4-year planning period of which 2019/20 is the final year. Only revenue and capital proposals for 2019/20 and associated council tax decisions

require formal approval in February 2019. The full details of 2019/20 revenue and capital budgets are set out in the appended Budget Book. The Medium Term Financial Strategy and capital investments starting after 2019/20 are for noting only.

### **13 FINANCIAL & OTHER IMPLICATIONS:**

#### Financial Implications:

- 13.1 These are contained within the main body of the report.

*Finance Officer Consulted: James Hengeveld*

*Date: 04/02/19*

#### Legal Implications:

- 13.2 Whilst the Policy, Resources & Growth Committee is being asked to recommend, and subsequently the Council asked to agree, the revenue budget and capital programme, the budget decision is a resourcing decision and does not necessarily constitute final approval of what policies would be implemented or what sums of money will be saved under the service proposals.
- 13.3 Any decisions taken as part of the budget setting process are subject to compliance with relevant legal requirements where appropriate before implementation. The revenue budget and capital programme recommendations in the report do not commit the council to implement any specific savings proposal. When specific decisions on budget reductions are necessary, focussed consultations and the full equality implications of doing one thing rather than another will be considered in appropriate detail. If it is considered necessary, in light of equality or other considerations, it will be open to those taking the decisions to spend more on one activity and less on another within the overall resources available to the council.
- 13.4 Policy, Resources & Growth Committee is responsible for formulating revenue and capital budget proposals for adoption by the Council. Power to adopt the budget and capital programme is vested in full Council.
- 13.5 For these purposes, the “budget” includes the allocation of financial resources to different services and projects, proposed contingency funds, and setting the council tax.
- 13.6 Section 52ZB of the Local Government Finance Act 1992 requires a billing authority to determine whether its relevant basic amount of council tax is “excessive”. If the amount is excessive, the billing authority is required to hold a referendum, with a view to applying an alternative amount if the excessive amount is rejected in a referendum.
- 13.7 The determination of whether a relevant basic amount of council tax is excessive must be made in accordance with principles determined by the Secretary of State. The Ministry for Housing, Communities & Local Government (MHCLG) has stated that for the 2019/20 financial year, an increase of 3% or more, excluding any Adult Social Care precept, will be regarded as excessive. Therefore, local authorities opting for an increase of 3% or more (excluding the Adult Social Care Precept) will be required to hold a referendum.
- 13.8 Policy, Resources & Growth Committee has delegated power to formulate the council’s Capital Strategy, including the capital investment programme, and the Treasury Management Strategy Statement, including the Annual Investment Strategy, and to recommend their adoption by full Council as part of the overall budget setting process.

Equalities Implications:

- 13.9 In Brighton & Hove City Council a budget Equality Impact Assessment (EIA) process has been used to identify the potential disproportionate impacts of proposals on groups/individuals covered by legislation (the 'protected characteristics' in the Equality Act 2010) and actions to mitigate these negative impacts or to promote positive impacts. This is a key part of meeting the requirements of the Act and demonstrating that the council is doing so. In law, the potential impacts identified, and how far proposed actions mitigate them, must be given due regard by decision-makers at each stage of the budget-setting process. However, as noted under legal implications above, in setting the budget members are making resourcing decisions which remain subject to compliance with all necessary legal and statutory consultation requirements.
- 13.10 All proposals with a potential equalities impact on service-users or staff in 2019/20 have had an EIA completed (provided in Members' rooms and on-line), and this is cross-referenced within the savings proposals in Appendix 1. Staffing EIAs are also being used in the formal consultation process on proposed staffing changes.
- 13.11 When the budget proposals were first published in late 2018 the EIAs were also circulated widely to stakeholders. Feedback was used by officers to revise the first drafts of EIAs into the final versions available to members for their scrutiny as they consider the budget proposals. They are also published on the council website.

Sustainability Implications:

- 13.12 A carbon budget has been set for 2019/20 and is included at appendix 8. This shows the level of spend on energy and the estimated carbon emissions across each carbon budget area including planned reductions.

Any Other Significant Implications:

Risk and Opportunity Management Implications:

- 13.13 The budget proposals include recommended risk provisions to manage a range of general and specific risks, including maintaining the working balance at £9m. The level of risk provisions clearly needs to strike a balance between putting scarce resources to one side at a time when vulnerable people's reliance on essential public services is expected to grow, as evidenced by demands across Adult Social Care and Homelessness services.
- 13.14 To this end, the budget report includes the Chief Finance Officer's formal assessment of the robustness of estimates in the budget and the adequacy of reserves and provisions, including an assessment of the need for any additional risk provisions. This is set out in section 9 of the report.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Budget Book 2019/20
2. Capital Strategy 2019/20
3. Treasury Management Strategy Statement
4. Review of Reserves
5. Assessment of Risks

6. Equalities Impact Assessment – Cumulative Impact Statement
7. Equalities Impact Assessment – Individual Assessments
8. Carbon Budget for 2019/20

### **Background Documents**

1. Budget files held within Finance
2. Consultation papers

