MEDIUM TERM FINANCIAL STRATEGY 2010/11 TO 2012/13

Council Tax Strategy

The resource projections within the Medium Term Financial Strategy (MTFS) are based upon a planned increase in council tax for the period 2010/11 to 2012/13 of 2.5%. If a Conservative government is elected it has pledged that any council setting a council tax increase of 2.5% or less will receive sufficient additional funding to enable the council to freeze its council tax for 2 years.

The overall level of council tax is also dependent upon the council taxes set by the Sussex Police Authority and East Sussex Fire Authority. Overall the comparable band D council tax for Brighton & Hove residents is slightly above the national and unitary average but well below the average in Sussex.

Financial Planning Principles

The combination of inflationary and demographic pressures on the budget, below inflation increases in government grant and the council tax targets mean that significant savings will need to be identified in future budgets. As part of this savings package the council is committed to delivering 4% efficiency savings per annum over the planning period in line with government targets.

The underlying principles to be adopted in the savings process will be:

- Value for Money programme
- Aligning resources with priorities
- A Council the City deserves - restructuring the Council

Value for Money

The council has refreshed its approach to the value for money programme and has developed a high level business case for large scale initiatives to deliver value for money savings over the next 4 years to support the council's financial position.

The high level business case concentrates on the following priority areas:-

- Adult Services – Implementing personal budgets and re-ablement.
- Children's Services – Investing in prevention, changing planning & processes and improving procurement & commissioning.
- ICT – Improving governance & processes, improving application and infrastructure management.
- Work-styles – Rationalising property and improving productivity
- Procurement – Introducing category management and operational changes.
- Sustainable transport – fleet management, bus subsidies, restructuring the workforce and fees.

Aligning Resources with Priorities

The Leader of the Council has set out the council's priorities over the coming year through the announcement of 10 priorities for creating a city of opportunity. These priorities guide the allocation of resources. The 10 priorities are:

- Improving housing in the city and building more affordable family homes.
- Creating stronger communities.
- Ensure that we protect and respect our heritage.

- Building a reputation as a great place to live, work and visit.
- Improving community safety.
- Creating opportunities so young people can meet their aspirations and potential.
- Making sure that older people feel connected with their communities
- Continue building on our strong education results.
- Promoting a sustainable city.
- Creating a sustainable economy.

A Council the City deserves

The VFM programme will deliver very substantial savings but it will not be sufficient to bridge the budget gap on the current assumptions. The council will need to continue to explore new operating models to ensure that it can continue to deliver priority outcomes for citizens, businesses and visitors within these challenging financial constraints. This might include:

- A stronger emphasis on strategic commissioning.
- Reductions in layers of management and increasing spans of control.
- Greater partnership working and more joined up financial planning across public services in the city.
- Shared services.
- A mixed economy of service delivery including greater engagement and empowerment of the individuals, communities and the 3rd sector.

The council will actively promote strong financial and risk management and maintain sufficient reserves to support financial planning as set out in the Financial Management section of the Corporate Plan.

National context

The pre-budget report announced by the Chancellor of the Exchequer on the 9 December 2009 set out the forecast position on the national finances for the next 5 years. All the main political parties agree that growing levels of national debt and the size of the public sector deficit need to be addressed. This means that a significant squeeze on public spending is inevitable for 2011/12 onwards. It remains to be seen by how far and how fast government expenditure is cut.

After the General Election any incoming government is likely to prioritise spending on health and education. So with more of the national budget needed to fund increased government borrowing and the continuing impact of the economic downturn reducing tax revenues and increasing welfare spending, significantly less resources will be available for other local authority services.

All the main parties are also keen to see restraint in public sector pay to reduce the impact of spending reductions on jobs. Inflation has been at very low or negative levels throughout much of 2009. However, all the inflation indices rose sharply in December 2009 and are expected to stay above the governments target level of 2% for a few months before falling back later in 2010. Short-term interest rates are at an all time low of 0.5% and are expected to increase only very slowly back to average levels around 5% over the next 3 years. Long-term rates which are at relatively low levels are expected to rise to over 5% in the next few months.

Budget and resource projections

MTFS Assumptions

	2010/11	2011/12	2012/13
Pay	1.0%	1.0%	1.0%
General inflation	2.0%	2.0%	2.0%
Formula grant floor increase	1.5%	-1.0%	-1.0%
Housing & Council Tax benefit grant	No change	No change	No change
Dedicated Schools grant	4.1%	3.0%	3.0%
Area Based Grant	-6.6%	-10.0%	-5.0%
Other specific grants	8.8%	-5.0%	-2.5%
Efficiency savings	4.0%	4.0%	4.0%
Council Tax increase	2.5%	2.5%	2.5%

Summary of MTFS projections

	2010/11	2011/12	2012/13
	£'000	£'000	£'000
Budget b/fwd	219,004	230,790	230,395
Inflation	2,924	3,009	3,043
Service pressures and improvements	13,383	16,400	12,800
VFM programme, efficiency & other savings	-12,318	-17,752	-13,842
Changes in corporate budgets	65	1,305	412
Total	223,058	233,752	232,808
Change in contribution in reserves	7,732	-3,357	-436
Budget Requirement	**230,790**	**230,395**	**232,372**
Funding			
Grant	109,185	108,093	107,012
Council Tax	119,319	122,302	125,360
Collection fund surplus	2,286	0	0
Total	**230,790**	**230,395**	**232,372**

Resources

The council has a gross budget of about £750m in 2009/10. Approximately 62% is funded by government grants some of which is given to the council for very specific purposes whilst others are general grants which can be used to support expenditure as the council determines. Most government grants are announced as part of the Local Government Finance Settlement and 2010/11 is the last year of a 3 year settlement. The largest grant is the dedicated schools grant which must be used to fund schools or school related expenditure. The remaining 38% of the budget is funded by fees and charges 16%, housing rents 6%, council tax 15% and reserves 1%.

Formula grant

Any incoming government is likely to prioritise resources for health and education over other local government services. The pre-budget report announced in December set out government plans for an average 0.8% real terms increase for all services over the 4 year period 2011/12 to 2014/15. The government did not set out any detail behind these headline figures but additional resources will also needed for debt financing and the continuing impact of the economic downturn. Earlier projections had been based on a cash freeze but in the light of this information and discussions with other authorities the projections have been revised downwards to show a 1% per annum reduction in formula grant.

Specific Grants

Housing and Council Tax benefit grant is the biggest single specific grant the council receives. This grant is claimed on expenditure incurred and no changes are anticipated that would adversely affect the council's financial position.

In 2010/11 Dedicated Schools Grant (DSG) has seen a 4.1% increase in the per pupil allocation for Brighton & Hove, slightly lower than the national increase of 4.3%. The government projections for real terms increases for Education, adjusted for inflation, would show an increase nationally of 3.2% beyond 2010/11. It is assumed that Brighton & Hove will continue to receive less than the national average and therefore a 3% increase has been included in projections. However there are significant risks relating to the review of the DSG allocation formula where a new allocation formula is expected to be consulted on shortly for use from 2011/12 which could result in significant distribution changes for individual authorities.

Area Based Grant (ABG) is a general unringfenced grant which totalled £24.1m in 2010/11 following the transfer of supporting people. 3% of the reduction in 2010/11 is due to the loss of transitional grant for stronger safer communities and neighbourhood renewal. As a general grant it is expected to be an area that the government will target for reductions particularly in 2011/12 so ABG is projected to reduce by 10% in 2011/12 and 5% in 2012/13.

Specific grants have increased sharply over the last 10 years and the remaining specific grants totalling £50m in 2010/11 represent an increase of 8.7% from 2009/10. The assumption for future years is a reduction of 5% in 2011/12 and 2.5% in 2012/13.

Fees and Charges

The fees and charges are assumed to increase by 2% inflation over the period with the exception of parking income which is in total proposed to remain at 2010/11 levels, a 2% reduction in real terms each year.

Medium Term Financial Forecast

The forecast is expressed in terms of proposed percentage changes to service budgets and is designed to provide cash limited funding allocations within which each service is expected to manage. The percentage changes cover demographic changes and reflect service priorities. They are also shown net of savings for that service area. The table below shows the cash change including inflation for the budget allocations to service areas.

Proposed Cash Limit changes		**2011/12**	**2012/13**
		% Cash Change	**% Cash Change**
Finance & Resources	Planned Maintenance	2.0%	2.0%
	F&R - Other Services	-1.7%	-1.7%
Strategy & Governance	Strategy & Governance	-1.0%	-1.0%
Culture & Enterprise	Culture & Enterprise	1.0%	1.0%
Environment	Waste Disposal	0.0%	2.5%
	CityClean	-1.2%	-1.2%
	Parking Income	0.0%	0.0%
	Environment - Other Services	0.4%	0.4%
CYPT	LEA functions	-1.4%	-1.4%
	CYPT – Other Services	2.8%	2.8%
Adult Social Care & Housing	Learning Disabilities	2.6%	2.6%
	ASC & H - Other Services	-0.1%	-0.1%
	Health led Services	0.1%	0.1%

Inflation

The government's long term objective is to keep inflation to 2% and this is the assumption included in the projections. The recent inflation increases could put pressure on meeting this objective and lead to higher pay demands. The government has also signalled pay restraint in the public sector and this was confirmed in the pre budget report published on the 9th December 2009 where a 1% cap on public sector pay in both 2011/12 and 2012/13 was assumed. Therefore the planning assumption will be for 1% pay over the period and this will also cover any increase in future pay as a consequence of job evaluation and changes in allowances.

Commitments

The main commitments over the period include an additional £0.5m risk provision in each year. The impact of the East Sussex Pension Fund triennial review is expected to result in increases in the employers contributions of 1.5% over the 3 years 2011/12 to 2013/14. This is expected to be phased in at 0.5% per year and £0.65m has been included each year from 2011/12.

The council has also made a commitment of £5m capital investment for the new historic records centre subject to final Cabinet approval. The financing costs of this investment have been included in the projections.

Service Pressures

The council has faced significant service pressures in recent years particularly in children's and adults social services through growth in demand and increased complexity of need; over £12m of pressures are included in the 2010/11 budget. This trend is expected to continue in the coming years. There is also an increase in national insurance contributions from April 2011 estimated to cost £1.2m and as already highlighted the national financial position is expected to result in reductions in specific grants with the greatest impact in 2011/12.

VFM Programme, efficiency and other savings

The budget projections include the need to identify over £31m of recurrent savings over the 2 year period. The council is required to demonstrate 4% efficiency savings each year to meet government efficiency targets. This equates to £18.5m over the 2 years, however this is insufficient to meet the overall savings required. The council is in the process of implementing its Value for Money programme across the specific themes through a High Level Business Case and this will support the delivery of efficiency savings across the authority. This will not fully meet the council's savings targets and therefore additional value for money or other savings proposals will need to be developed over the coming years.

Capital

The table below sets out the council's proposed spending on capital items over the next 3 years. The capital programme is heavily reliant on specific government funding and therefore projections beyond the 3 years allocation already announced would be speculative.

Capital Resources

	2010/11	**2011/12**	**2012/13**
	£'000	**£'000**	**£'000**
Borrowing	22,529	21,331	12,175
Grants	59,133	12,332	6,836
Sale of Assets – capital receipts	1,568	8,910	10,600
Capital Reserves	2,575	0	0
Revenue Contributions & MRA	14,865	13,548	12,216
Contributions from external bodies	954	249	92
	101,624	**56,370**	**41,919**

Borrowing

The council will undertake borrowing over the next 3 years based on government borrowing allocations and unsupported borrowing. The government allocations for the Local Transport Plan and Education are anticipated to reduce significantly and a 50% reduction has been assumed for 2011 -2013. No further allocations have been assumed for the HRA.

The main elements of unsupported borrowing are within the HRA as part of the HRA business plan, and to support the delivery of the new historic records centre. The council will also use borrowing to fund the replacement of vehicles and plant where purchase proves to be the most cost effective way of procurement.

Grants

In 2011/12 the council will receive the remaining grant to support the Falmer Academy. No further grants have been announced for 2011 -2013 and it anticipated that general government grants will also reduce by 50% from 2010/11.

Sale of Assets – Capital Receipts

The proceeds from the sale of assets are used to support the capital programme. The HRA business plan includes receipts to support investment in housing through the Local Delivery Vehicle. The level of Right to Buy receipts are expected to improve over the period and any net proceeds above £0.5m will be used for investment in housing; the other main receipts include the sale of Patcham Court Farm and 12 – 15 Kings Road. The proceeds from any new disposal opportunities will be incorporated into the resources available through the capital programme.

Capital Reserves

Capital reserves are held to support capital expenditure over the 3 year period where the timing of investment is later than when the resources were allocated. The council's capital reserves include £0.75m contingency for the King Alfred to fund any additional investment required to maintain the facility and to progress new development plans for the site. This contingency has not been included in expenditure estimates.

Revenue Contributions

The council fund certain capital expenditure through contributions from the revenue budget of both the General Fund and HRA. In addition the Major Repairs Allowance allocated to the HRA, will support investment in Housing.

Contribution from External Bodies

The council will receive CIVITAS funding in the period 2011-2013 to support transport initiatives in the city.

Capital expenditure plans

Details are shown in appendix 1 of the capital resources and capital investment programme 2010/11 report elsewhere on the agenda.

	2010/11	2011/12	2012/13
	£'000	£'000	£'000
Schools	43,214	9,485	4,431
Transport	8,089	3,557	3,342
Housing	29,550	30,017	26,921
Adult & Children's Social Care	9,343	1,153	493
Regeneration projects	1,138	600	600
Planned Maintenance & property Improvement	5,125	4,538	3,082
Libraries, Museums & Historic records	500	4,000	500
Computer infrastructure	1,707	520	500
Other	2,958	2,500	2,050
Total	**101,624**	**56,370**	**41,919**