

	<p style="text-align: center;"><b>Full Council</b> 19 November 2012</p> <p style="text-align: center;"><b>Report from the Deputy Director of Finance</b></p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p><b>First Reading Debate on the Budget and Medium Term Financial Plan</b></p>	

## 1.0 Summary

- 1.1 This report, together with the separate report on this agenda on the priorities of the administration, meets the requirement in the Constitution (Standing Order 24(b)) that:

*‘The Executive shall present a report from the Director of Finance and Corporate Services to Full Council setting out the financial position of the Council, financial forecasts for the following year and the possible expenditure priorities of the Executive. There shall then be a debate on the issues raised in that report held in accordance with Standing Order 44 hereinafter called a “First Reading Debate”.’*

- 1.2 The record of the ‘First Reading Debate’ assists the Leader of the Council and the Chair of the Budget and Finance Overview and Scrutiny Committee in shaping the budget. The role of the Budget and Finance Overview and Scrutiny Committee is to assist the budget process by providing detailed input during the Executive’s development of its budget proposals. This includes scrutiny of the Executive’s budget proposals prior to the Executive’s recommendations on the budget being agreed at its meeting on 11 February 2013, as well as further consideration after the Executive’s recommendations have been made. Final decisions on the budget and the level of Council tax for 2013/14 will be made at Full Council on 25 February 2013.
- 1.3 This report has been written on the basis of the best information available to the Council at this stage. At the time of writing this report there is considerable uncertainty regarding external funding, pending the Autumn Statement and the draft local government finance settlement which are both expected in December.
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1.4 In addition, the ongoing impact of the recession and concerns about the prospects for future economic recovery mean that underlying assumptions about pay and price increases, interest rates, service pressures and other items within the Council's medium term financial strategy will need to be kept under close review.

## 2.0 Recommendations

2.1 Full Council is recommended to consider the issues set out in this report when it holds its 'First Reading Debate' for the purposes of Standing Order 25(a).

## 3.0 Background to the budget and medium term financial plan

3.1 The 2012/13 budget was agreed at Full Council on 27 February 2012. Key features of the budget agreed for 2012/13 were:

- A General Fund budget requirement of £260.4m;
- No Council tax increase for Brent services leading to a Band D level of £1,058.94;
- An overall Council tax reduction of 0.2%, including the GLA precept, leading to a Council tax for Band D properties of £1,365.66;
- Reserves of £12m by 2013/14, which was at the lower end of the range of £12m to £15m recommended by the Director of Finance and Corporate Services based on an assessment of financial risks;
- Financial projections for future years based on the assumptions that balances would remain at £12m and that council tax would increase by 3.5% in 2013/14 and 2.5% thereafter.

3.2 The projections for future years produced a gap to be bridged for the period 2013/14 to 2015/16 as follows:

**Table 1: Estimated Budget Gap at 27 February 2012**

	2013/14 £m	2014/15 £m	2015/16 £m
Net Savings Required	9.3	11.6	5.3
Savings Identified	11.3	6.2	1.5
Budget Gap/(Surplus):			
Annual	(2.0)	5.4	3.8
Cumulative	(2.0)	(3.4)	(7.2)

3.3 This budget gap was subsequently updated in a report to the July 2012 Executive to reflect:

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- Changes to the way in which council tax support was to be treated and the impact of this on council tax income projections
- Provision for additional budget pressures over and above those included in the budget report
- Update on savings from the One Council Programme together with revision to costs of the Programme in future years
- Changes to other savings assumptions in the budget.

3.4 A summary of the overall position incorporating the above changes is set out in Appendix 1. The schedule of central items is set out in Appendix 2. In broad terms, the overall impact of these changes on the budget was neutral.

	2013/14 £m	2014/15 £m	2015/16 £m
February 2012	(2.0)	3.4	7.2
Net Movement	1.8	(0.9)	0.3
July 2012	(0.2)	2.5	7.5

#### 4.0 General Fund revenue budget issues

4.1 The council's medium term financial strategy, including delivery of savings through the One Council Programme, is based on projections of resources made at the time of 2010 Comprehensive Spending Review, which set out government funding for local government through to 2014/15, and assumptions made about council tax increases.

4.2 Recent developments mean that there is now significant uncertainty about government funding in 2013/14 and beyond. These include:

- Slower than projected economic growth which has had a significant impact on government borrowing;
- Changes to the funding system of local government, including both changes to business rate assumptions and council tax support;
- Proposed removal of funding from local government to pay for the introduction of education for two year olds and to fund the cost of functions previously carried out by local authorities for schools that will now transfer to academies;
- The impact of population figures in the 2011 Census, including the extent to which the government will increase grant to fund the increase in Brent's population to the actual figure of 312,000;
- The extent to which the government will compensate councils for the financial impact of welfare reform on costs to councils of temporary accommodation for homeless people.

4.3 In addition, the Secretary of State for Communities and Local Government recently announced that a council tax increase above 2% for 2013/14 would

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trigger the requirement to hold a local referendum. He has also announced a further Council Tax Freeze Grant. In return for not increasing council tax in 2013/14 this would provide funding equivalent to a 1% council tax increase for each of the next two years. The Council will need to decide whether to accept the time-limited grant (and continue the erosion of its tax base) or reject it.

- 4.4 The uncertainty caused by these announcements has been reinforced by a delay in the Autumn Statement to 5 December 2012. Announcements of the funding changes that result from the items listed in paragraph 4.2 above will be made during December, with the provisional local government finance settlement itself not likely to be announced until the week before Christmas.
- 4.5 This uncertainty means that it will not be possible to take some key decisions on the budget until after the government announcements. In the meantime, the Council has continued to deliver key elements of the existing budget strategy and prepare for the changes to funding, including:
- Progressing cross-council One Council Programme projects, such as the Move to the Civic Centre, Future Customer Services, and Realignment of Corporate and Business Support which will form the basis for budget savings in future years;
  - Progressing partnership and service based projects, such as Integrating Health and Social Care, Working with Families, Supporting People, Parking Enforcement, Highways Operations, Managing Waste, preparation for letting the Managing the Public Realm contract, School Improvement and Special Education Needs;
  - Validating the level of savings included in future budget projections from One Council projects;
  - Putting in place measures to help manage the impact of welfare reform on council services and finances;
  - Consulting on a new Council tax Support Scheme;
  - Reviewing existing service and central budgets.
- 4.6 The Council will need to review its medium term financial strategy following the announcement of the Autumn Statement, the Local Government Finance Settlement and related changes. The worsening state of public finances, compared to previous projections, together with demographic and other pressures on spending, means that there will continue to be the need to make significant budget reductions through to the end of the current decade. It is important that decisions taken on the budget in any one year take into account the longer term implications and the ability of the council to continue to meet the needs of Brent residents over the longer term.
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## **5.0 Schools Budget**

- 5.1 The Schools Budget is funded directly from a Dedicated Schools Grant (DSG) which is ring-fenced and does not appear as part of the Council's overall budget requirement. Schools are also allowed to build reasonable levels of reserves which are also ring-fenced.
- 5.2 The government announced in the last Spending Review that schools spending was a priority area and, although overall Department for Education (DfE) funding fell by almost 11%, allocations of DSG to local authorities were unchanged on a per pupil basis.
- 5.3 The council is required to consult the Schools Forum, which consists of representatives of the different schools sectors and includes head-teachers and governors, on the setting of the Schools Budget. The Schools Forum will be considering this at its meetings in December through to February. There is a requirement that the year on year increase in the central element of the Schools Budget (which includes Special Education Needs) cannot be greater in percentage terms than the increase in funding delegated to schools, unless agreed by the Forum. A key issue that is being addressed is the current forecast cumulative deficit on the Schools Budget. A full recovery plan has been approved by the Schools Forum and is in place to deliver savings in this area of expenditure and use part of the overall DSG to eliminate this deficit.
- 5.4 Final decisions on the allocation of the Schools Budget will be taken by the Executive in February 2013.

## **6.0 Housing Revenue Account**

- 6.1 The Housing Revenue Account (HRA) covers the activities of the Council as landlord for approximately 9,000 freehold dwellings and 200 leasehold dwellings. The HRA is separate from the General Fund and is ring-fenced – i.e. HRA expenditure is met from HRA resources, which primarily consist of government subsidy (HRA Subsidy) and rents and not from Council tax or other General Fund resources
  - 6.2 From April 2012 the HRA subsidy system ended and the HRA is now self-financing. In return the Council received a one-off settlement of £198 million in lieu of the annual subsidy previously received.
  - 6.3 The rent increase for Council dwellings takes account of the government's guidelines on convergence between rents charged by Councils and Registered Social Landlords (mainly housing associations). In 2012-13, this resulted in an average rent increase of 7.1%.
  - 6.4 The HRA forecast outturn for 2012-13 is in line with the original budget.
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6.5 In February 2013 the Executive will decide on the rent increase to be applied in 2013/14. The HRA budget will be agreed by Full Council in on 25 February 2013 as part of its consideration of the overall Council budget report.

## **7.0 Capital Programme**

7.1 The capital programme is a four year rolling programme which is up-dated each year. The current 2012/13 to 2015/16 capital programme was agreed as part of the overall 2012/13 budget process in February 2012 and has been up-dated to reflect changes subsequently reported to the Executive. This includes accounting for slippage of previous years' spending into 2012/13.

7.2 The capital programme for 2012/13 to 2015/16 reflects the priorities of the Borough Plan, asset management plans and any amendments required arising from the new departmental structures. The capital programme will also be extended to include the 2016-17 financial year.

7.3 The key challenges for the development of the capital programme are:

- a. To revisit the estimated sources of funding, taking into account the continuing impact of the economic downturn on other contributions such as reduced levels of developer contributions arising from a slowing of major development projects.
- b. The ongoing need to provide additional school places across the borough and address other school capital needs
- c. In the light of the above to ensure that the up-dated capital programme delivers the Council's key priorities within the resources available.

7.4 The capital programme is currently based on the assumption that borrowing that falls on the General Fund will be at the level set out in the Council's medium term financial strategy.

7.5 Such a strategy does increase borrowing costs each year at a time when revenue resources are falling leading to interest costs taking up an increasing share of total revenue resources. Members could decide to reduce that borrowing as a way of helping bridge the budget gap in 2013/14 and beyond through the reduction of borrowing costs as referred to in paragraph. Achieving this would mean either reductions in the capital programme or the identification of alternative funding sources other than borrowing from those already identified.

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7.6 Borrowing levels currently included in the capital programme (set out in Appendix 3) are as follows:

	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Unsupported Borrowing	2,280	6,730	6,972	6,972
Unsupported Borrowing – Self Funded	80,453	1,718	200	200
Total Borrowing	82,733	8,448	7,172	7,172

7.7 The elements of borrowing for which the costs are borne centrally and for which measures could be taken to reduce the revenue budget gap are the supported and unsupported borrowing. The borrowing costs from the Self Funded elements of unsupported borrowing are met from service revenue budgets respectively and reflect committed schemes for which there is budgetary provision.

In order to consider the potential to reduce the levels of borrowing incurred to fund the capital programme it will be necessary to first define the level of grant that will be made available via the local government settlement, the extent of other funding sources and contributions available and those schemes where there is a continuing commitment to fund or a statutory requirement to make provision. Members will then be able to consider the level of any funding gap arising, the total level of borrowing affordable to the General Fund revenue budget and the prioritisation of schemes within the existing 4 year capital programme and how that should roll into 2016-17.

## **8.0 Timetable**

8.1 The timetable for finalising the 2013/14 budget is attached as Appendix 4. The key dates are:

- the Chancellor's Autumn Statement on 5 December 2012;
- release of the Mayor's consultation on the GLA budget on 17 December 2012;
- provisional local government finance settlement which is expected by 20 December;
- administration's draft proposals issued early February 2013;
- Executive decides budget recommendations to Full Council at meeting on 11 February 2013;
- GLA budget agreed on 13 February 2013;
- Full Council decides budget on 25 February 2013.

8.2 The Budget and Finance Overview and Scrutiny Committee will be scrutinising the budget at various stages of this process: prior to the administration's draft proposals being issued; after the proposals have been

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issued, with their discussions feeding into Executive consideration of the budget proposals on 11 February; and following the decisions of the Executive, feeding into the Council budget debate. Last year the Overview and Scrutiny Committee invited a range of members to its meeting preceding the Executive's consideration of the budget proposals and the intention will be to follow the same approach this year.

## **9.0 Financial Implications**

- 9.1 The report is entirely concerned with financial implications which have far reaching consequences for the Council's services in future years.

## **10.0 Legal Implications**

- 10.1 The Council's Standing Orders contain detailed rules on the development of the Council's budget. Some elements of these rules are required by the Local Authorities (Standing Orders) (England) Regulations 2001 but a number are locally determined.
- 10.2 In the case of the Council's annual budget, including the capital programme, the Executive is required under the Constitution to present a report to Full Council setting out the financial position of the Council, financial forecasts for the following year and their expenditure priorities. This report, together with the separate report on this agenda on the priorities of the administration, sets out the required information. There will be a debate on the issues raised herein and in the separate report, which will be conducted in accordance with Standing Order 44.
- 10.3 Following the First Reading Debate, a record of the debate will be sent to the Leader and to Chair of the Budget and Finance Overview and Scrutiny Committee. The Budget and Finance Overview and Scrutiny Committee will meet and produce a report setting out its view of the budget priorities and any other issues it considers relevant. This report will be submitted to each Executive Member and each Group Leader in order to inform budget proposal discussions. Prior to being agreed by the Executive, the Executive's budget proposals will be sent to members of the Budget and Finance Overview and Scrutiny Committee which will consider the proposals and submit a note of its deliberations and comments on the proposals to the Executive. The Executive will take into account the issues raised at the First Reading Debate and the note of the deliberations and comments from the Budget and Finance Overview and Scrutiny Committee in making its budget recommendations to Full Council.
- 10.4 The final proposals will be submitted by the Leader to a special meeting of Full Council for consideration and determination no later than 10<sup>th</sup> March in accordance with Standing Order 34. There is a statutory dispute procedure set out in Standing Order 25 to deal with circumstances where there is a disagreement between the Council and Executive on the budget proposals
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but this only applies where the budget setting meeting takes place before the 8<sup>th</sup> of February.

## **11.0 Diversity Implications**

11.1 Prioritisation and decision making as part of the budget process are tied into the Council's corporate strategy, individual strategies and service development plans. The priorities within these reflect the Council's commitment to tackling discrimination and disadvantage as part of its Comprehensive Equality Plan (CEP). In addition, services are required to carry out Impact Need and Requirements Assessments where it is considered that individual growth and savings proposals could have an equality impact. The impact of budget decisions is monitored through the Council's performance monitoring systems. Members need to bear in mind the diversity implications of any proposals they put forward as part of the First Reading Debate.

## **12.0 Background Papers**

Budget Report – Full Council 27 February 2012  
Budget Strategy 2013/14–2016/17 – Executive 16 July 2012

## **13.0 Contact Officers**

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