

- 1.1. In 2010 a new coalition government was formed and embarked on what it regarded as an essential programme of deficit reduction, welfare and public sector reform. This has resulted in very substantial reductions to the funding available to local authorities and radical changes to the way in which this is allocated across the country. The impact of policy reform across a range of areas and unprecedented macro economic circumstances have had a fundamental impact on Brent's residents and therefore on their expectations of what the council should do to help meet their needs.
- 1.2. At the same time wider changes in society have forced local authorities across the country to rethink the way in which they commission and provide services to meet local needs and aspirations. People are, on the whole, living longer lives, with increasing consequences for the way in which they need to access care services, and the length of time they continue to need such services. In Brent, there are now more than 48,500 people aged over 80 years, up by 24% in the last five years. The number of over 65s years has increased by more than 10% in the same period.
- 1.3. This has obvious implications for the council's cost base, driving up the number of vulnerable adults that the council may need to support, the level of their needs and the length of time for which those needs may need to be met. Local authorities have responded to these pressures by redefining models of care provision, increasing the emphasis on programmes designed to enable vulnerable residents to live their own lives without support and where this is not possible to exercise greater choice about how their needs are met.
- 1.4. In London, the combined impact of a growing and younger population is placing enormous pressure on the demand for school places, especially at the primary phase. In Brent, there are now more than 45,000 aged less than 10, up by 12% in five years. This too has implications on the number of vulnerable children for whom the council must provide services.
- 1.5. These demographic pressures are also driving housing prices to such a level that home ownership is becoming increasingly out of reach for many residents. In Brent an average two bedroom property costs £410,000, nearly 15 times greater than the average annual salary of £28,000. Private rented tenancies as a form of tenure have therefore grown to levels not seen for many years, and for some residents the housing available in the borough is increasingly unaffordable in any form of tenure.
- 1.6. These demographic changes also place particular challenges on those services that all residents access and will continue to need to access, such as street cleaning and refuse collection, the quality of the local built environment and open spaces and all the many other services that local authorities provide. As populations rise so the cost of providing services tends to increase, and the competing demands on the use of the local environment become increasingly difficult to reconcile.

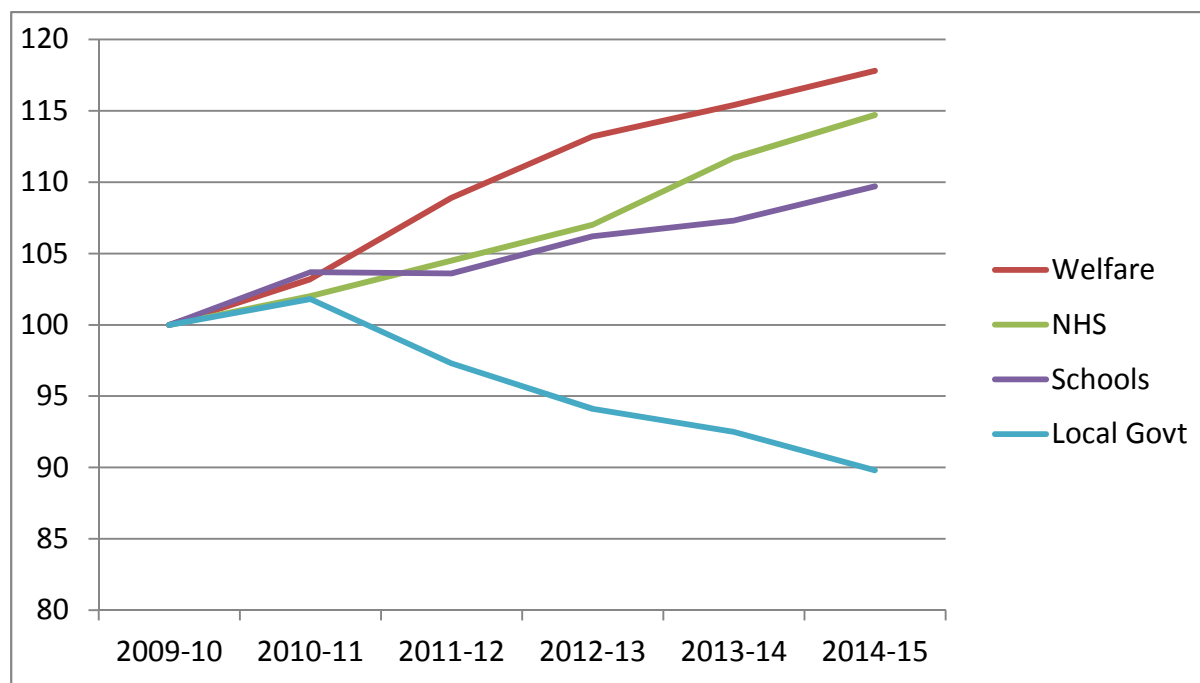
- 1.7. Despite these changes and pressures, or perhaps because of them, residents' expectations of the council continue to change. This relates not just to the range and level of services that the council provides, but also to the way in which it provides them. More and more of our residents expect to be able to deal with the council through digital means, with the ability to obtain information and perform at least routine transactions 24/7. However, whilst services are reconfigured to meet this demand the council needs to ensure that it remains open to those whose needs can only be assessed and met through more traditional service delivery routes.
- 1.8. These demographic and societal changes alone would be a challenge for any organisation to respond to. However, they have been coupled with deep and ongoing reductions to local government funding of a scale and pace not previously seen in the UK public sector.
- 1.9. This report follows on from the December Cabinet report which presented budget proposals from council officers to respond to the financial challenges that must be met, rooted in the context in which service delivery models are changing. The feedback from the consultation exercise undertaken by the council has led to a number of proposals being removed from the draft budget. Nevertheless the are still difficult and challenging proposals amongst those that remain that will have real impacts on the range, level and quality of services provided in the future: in some cases services may be transferred to other organisations or even cease altogether.
- 1.10. These proposals need to be understood in the context summarised above. Local government faces an unprecedented financial challenge and a radical response is required to ensure continued delivery of high quality essential services and preserve the council's future financial sustainability.

#### Financial context

- 1.11. In real terms, funding for local government has fallen by 43 per cent from 2010/11 to 2015/16 (Source: House of Commons research paper 14/43, September 2014). This is in marked contrast to other parts of the public sector. This reflects the combined impact of the national financial policies of deficit reduction (achieved mostly through reductions in public expenditure rather than increases in taxation) combined with protection for significant elements of the public sector, especially in respect of pensions ("the triple lock"), the NHS and schools.
- 1.12. By operation of simple mathematics as total public sector expenditure is reduced – and over 75% of the deficit reduction programme was planned to be achieved through spending cuts rather than tax increases – with large elements of this total protected or even growing then the impact on unprotected areas, such as local government finance, will inevitably be very substantial.

- 1.13. Chart one shows the relative funding changes for welfare spending (including pensions), the NHS, schools and local government since 2010. The figures are shown in absolute terms, excluding the effects of inflation.

Chart 1 – Funding Changes since 2010



Source: London School of Economics / Institute of Fiscal Studies

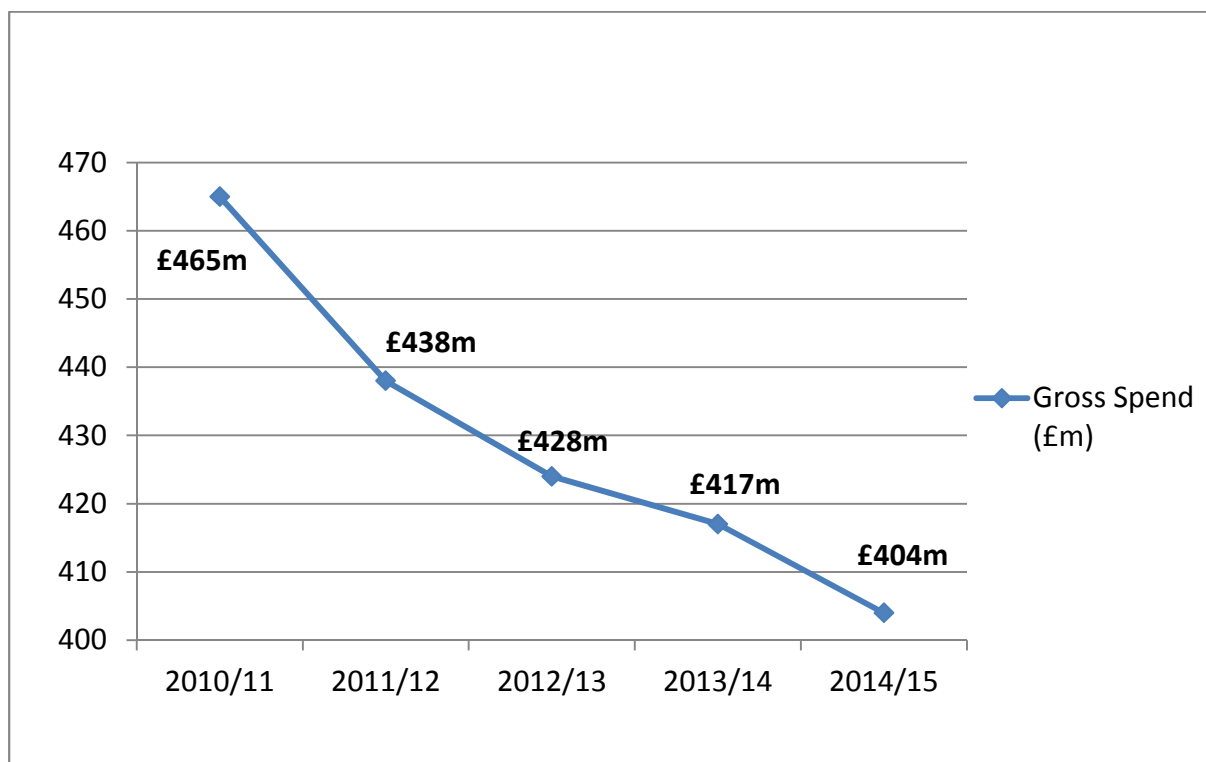
- 1.14. For every £100 spent on welfare in 2009/10 the amount in 2014/15 was about £118. On the same measure the NHS now receives around £115 and schools about £110. Each of these represents real terms increases, i.e. the increase in funding in cash terms is above the rate of inflation over the period. By contrast, local government spending had reduced to less than £90 in 2014/15 for every £100 that was spent in 2009/10, before the effect of inflation is even factored in.
- 1.15. These broad headlines conceal a more difficult, and complex, message for authorities such as Brent.
- 1.16. Within the local government finance settlements since 2010 the DCLG has adopted an explicit policy goal of reducing the proportion of the funding it makes available to local authorities based on an assessment of relative need. Up until 2010, and as far back as the 1930s, the local government funding system has sought, in various ways, to take account of the needs of different local authorities and the cost of providing services in them, and to reflect this in funding allocations.
- 1.17. Typically, this has included adjustments for relative levels of deprivation, measured in various different ways over the years, so that authorities with

greater levels of deprivation receive more funding to reflect the cost of the extra services they will need to deliver to meet these. There have also been adjustments for the factors that drive the cost of delivering the same level of services in different parts of the country. Examples of these include that pay levels in London and the south east tend to be higher than elsewhere in the country, that there are costs associated with collecting refuse in urban areas (from high rise flats for example) that will be different from the costs in rural areas where geographic distance is more of a factor and so on.

- 1.18. These elements of the funding system have not been removed, but their relative weighting has been reduced. Local government funding is now driven in greater degree by response to government policy goals, with greater elements of financial risk to be managed locally instead of centrally.
- 1.19. A significant example of this 'policy based funding' is the New Homes Bonus (NHB). The original funding to create this (£700m across England) was top sliced from the main Revenue Support Grant (RSG) allocation. It is not, therefore, new money but rather a shift in the balance of local government funding from a needs based system to a policy based system.
- 1.20. However, it is not happening in isolation. By creating the funding for this from the existing needs based RSG system the reduction in funding for boroughs such as Brent, with relatively high levels of need, was much more substantial than for those boroughs with smaller needs based funding allocations. Put more simply, Brent received more money than many other local authorities to meet assessed need, and when the national funding for this was reduced the impact was therefore inevitably more severe.
- 1.21. The partial localisation of business rates has had a similar effect. Again, the funding for the local element of this was created by top slicing it from the national allocation for RSG, heightening the disproportionate impact on high needs boroughs. Furthermore, as this was done without uprating future funding settlements for changes in needs, Brent's changing demography is increasingly not represented in funding settlements.
- 1.22. At the same time, the requirement to introduce a local council tax support scheme has transferred financial risk. Under the previous council tax benefit regime the cost of the benefit was managed nationally, so that the cost of changes in unemployment levels, which were the principal determinant of eligibility, did not fall to individual local authorities. Under the council tax support scheme an element of this financial risk is transferred to local authorities.
- 1.23. In a borough like Brent, where unemployment and low wage employment are far more prevalent than in other parts of the country, this means that the financial risk transferred is much greater. It is this combination of reduced total local government funding, changes to the way it is distributed and changes to the balance of risks shared between central and local government that has had such a significant effect on Brent.

- 1.24. For Brent, the effect of these radical changes to the total amount of funding for local government and in the way it is distributed across the country has been significant. Since 2010, savings of £89 million have been delivered through a combination of efficiencies and service redesign where possible and through reductions to the level of service provided. Staff numbers have reduced from 3,023 (2,734 FTE) to 2,339 (2,168 FTE) over the same period.
- 1.25. Chart two shows that the council's gross spend (excluding ring-fenced amounts for the DSG and housing benefits) has reduced by over £60 million in absolute terms over the period from 2010 to the present day. In other words, even once the effect of inflation and the transfer of new services and budgets to local authorities (such as for public health) are taken into account, the savings delivered to date have radically reduced gross expenditure on services.

Chart 2: Council Spending



- 1.26. There is no indication that the next four years will be any different. The coalition government's initial policy goal was to eliminate the deficit in the lifetime of one Parliament. In other words, by 2015 annual public expenditure should have been matched to tax receipts. In practice the deficit is still substantial – in the 2014/15 year, for example, net new borrowing of around £90bn will have been entered into by the government.
- 1.27. In consequence, the austerity programme will continue much longer than originally envisaged and as long as significant public sector budgets, such as for the NHS and schools, are protected then the burden of finding further savings will fall heavily on local authorities. And, as has been shown above,

continuation of current policy on funding allocations will mean that funding reductions within local authorities will fall most heavily on those with high needs, such as Brent, because those local authorities serving the least needy populations have little central funding left to be cut.