Brent	**Cabinet** 14 December 2015 **Report from the Chief Finance Officer**

Wards affected: ALL

Budget Proposals to 2017/18 and medium term outlook

1.0 Introduction

1.1 Cabinet considered the medium-term financial outlook at its meeting of 19 October 2015. At that time a savings target for the period 2017/18 to 2018/19 was set in a broad range from £40m to £55m. Cabinet noted at that time that the financial uncertainties were such that more precise targets could not reasonably be set, and the problems this posed for the budget planning process.

1.2 In the light of the Spending Review 2015 (SR15), which was published on 25 November 2015, it is now possible to update these estimates. However, these will remain subject to change until the local government finance settlement is announced, which is expected in the week commencing 14 December. Officers have therefore now brought forward a series of new proposals which, if approved following consultation, would be implemented from 2017/18 onwards.

1.3 This approach will place the council in a strong financial position, as further set out below. If the settlement is announced at the worst-case end of expectations the council will have a set of proposals that may be brought forward, if required, and if not the approach to planning the budgets for future years well in advance will enable sensible phasing of the implementation of proposals to minimise the impact on services.

1.4 As previously advised, in March 2015 there was a gap of £0.9m in the budget for 2016/17. The outcome of SR15 and other adjustments to the budget assumptions means that this has now been closed, despite the council needing to factor in additional costs to reflect demographic and other pressures, including those arising from the impact of recent legislative changes.

1.5 In March 2015 the council agreed its budget for the current year, and a number of other proposals to be built into the budget from 2016/17. No changes to these are proposed. Taken together with the new proposals introduced by way of this report, if these were all to be agreed, the budget for 2017/18 would most probably be substantially balanced. However, some details have yet to be resolved, including most importantly the detail of the local government finance settlement which has not yet been announced.

1.6 It is worth reflecting on the strength of this financial position. The council has faced significant reductions in government funding and the challenges posed by new legislation, perhaps most significantly in respect of welfare reform. Since 2010/11 expenditure per head in Brent has fallen by 16% in cash terms, and by substantially more in real terms. This is the third highest fall in outer London over that period, and significantly greater than the outer London average. This reflects the shift, since 2010, away from local government funding formulae based on relative need. This disproportionately affected boroughs such as Brent with relatively high levels of deprivation, whereas elsewhere in London boroughs such as Sutton and Bromley have seen their expenditure per head of population rise in cash terms.

1.7 As funding has been cut the population has grown and this has been particularly pronounced in the very oldest and very youngest age groups, which are statistically most likely to require services from the council, thus adding to the cost pressures. Coupled with the impact of legislative change, especially changes to welfare systems and payments, this has created substantial financial pressures.

1.8 Despite dealing with these pressures, and subject to the remaining uncertainties in the financial planning assumptions, some of which are simply inherent in any budgeting process, the council has sufficient options at its disposal to balance the budget for 2016/17 already, without introducing any new service proposals for that year. This report also brings forward initial options for 2017/18 and 2018/19, which, if adopted, will leave the council close to balancing its 2017/18 budget as well as making inroads to the remaining gap for 2018/19.

1.9 Having confronted difficult decisions early in the financial planning cycle the council is now able to build into its financial plans the benefits of significant efficiency gains. The new proposals for 2017/18 and 2018/19, for example, include expected gains from re- procurement of major contracts of over £8m and management efficiency savings of nearly £5m. This does not mean that delivering these planned savings, if approved, will be managerially straightforward, or that front-line services will be entirely unaffected, or that they can be achieved without staffing redundancies, but it is nonetheless the case that the new proposals set out in this report do not include the wholesale cuts to services that many councils are considering and indeed implementing. Indeed, section six of this report focuses on investment options for the council, focusing the resources re-directed from earlier decisions onto key priorities.

1.10 Setting budgets for more than a single year will also allow the council to continue its longer-term approach to financial planning, identifying more opportunities to reduce costs without commensurate reductions to services out into 2018/19 and beyond.

1.11 This approach will be essential. As is also set out in more detail in this report, SR15 confirmed the broad approach outlined in the October budget strategy update: that is, that funding reductions by 2018/19 and future years will be as significant, if not more so, than those assumed when the council set its last budget in March 2015, but that the early pace of these reductions will be somewhat slower. There is no doubt, therefore, that significant savings will still need to be identified for 2018/19 and beyond. From this it follows that the right strategy must be to bank as many efficiencies as possible as early as possible in the process, in order to free up time to work on the more demanding service transformations that will be necessary to mitigate the impact of further cuts in 2018/19 and beyond. This is the strategy set out in this report.

1.12 No position has yet been reached on council tax, and more options on this are available in the light of the announcement in SR15 of the power to increase council tax by an additional 2%, ring-fenced for adult social care. This will be in addition to the presumed (but not yet formally confirmed) ability to raise the basic level of council tax by up to 2% without a referendum. As set out in more detail in the report, taken in any single year the financial impact of the legal maximum council tax rise of 4% would therefore be about £3.6m, assuming, as seems likely, that no freeze grant will be available. However, decisions on budgets, and council tax in particular, need to be considered over the medium-term. Despite the strong approach to efficiency adopted the budget will be under considerable pressure by 2018/19 and beyond, so it will be necessary to consider the cumulative impact of increasing council tax in 2016/17 to alleviate those pressures. These decisions will be taken as part of the process for finalising the budget in February 2016. Pending the local government finance settlement and Member led deliberations, as council tax levels are ultimately a political decision, this report does not recommend one approach over another at this stage.

1.13 For now, in line with the council's normal approach to financial planning, Cabinet is not being asked to recommend a final budget. This report sets out the impact of SR15 on the council's strong financial position and sets out a draft set of officer proposals for implementation, if agreed, from 2017/18 onwards. It sets out the remaining steps necessary to complete the 2016/17 budget and the indicative business plans for 2017/18 and beyond, including the consultation processes to be followed, and it updates the medium term financial outlook to 2018/19 and beyond.

2.0 Recommendations

2.1 To note the budget proposals previously agreed for 2016/17 and 2017/18, as set out in Appendix One.

2.2 To confirm that the proposals referred to in Appendix One, having already been extensively consulted upon, should remain part of the council's budget and business plans.

2.3 To note the impact of SR15 on the overall financial position, as set out in section four of this report, and to note the remaining uncertainties, including that the local government finance settlement is not expected to be released until week commencing 14 December..

2.4 To note the new budget and business plan proposals, as set out in section five, with a summary in Appendix Two and detailed proposals in Appendix Three.

2.5 To agree that the proposals referred to in 2.4 should be consulted upon, in line with the timetable set out in section seven, and referred back to Cabinet for its February 2016 meeting for decision.

2.6 To agree the schools' budget set out in section eight of this report.

2.7 To agree the approach to developing an investment strategy set out in section six.

3.0 Technical funding update since October 2015

3.1 The latest projection for New Homes Bonus (NHB) funding for the Council have been uprated slightly to reflect additional forecast housing completions. This adds £0.3m to the value of the NHB previously assumed. However, as set out in section four, one impact of SR15 will be to reduce and perhaps eventually eliminate NHB as a source of funding. As a result the financial planning model has now been updated to remove NHB from the main revenue budget over time, and re-divert any remaining resources from this source to funding capital investment, which was always the original policy intention behind the NHB funding source.

3.2 The October Cabinet report identified greater confidence in the accelerated house building estimates and made additional allowance in the budget. This confidence has continued to strengthen. This has allowed the Council to make a number of updates to its council tax income projections. Overall the Council is now looking at an improvement of 1,540 in its band D properties reflecting the underlying improvement in the number of projected new properties and the full year impact of the new properties. This will add an additional £1.6m to Brent's forecast council tax income in 2016/17. In additional a further review of collection rates point to the long term rates edging up and that a more realistic rate would be 97.5% an increase of 0.5% from the October assumptions. This would generate an additional £0.5m giving an overall improvement of £2.1m in 2016/17 and future years as detailed in Table One.

3.3 No technical changes are required to the assumptions for RSG, BRTU and NDR. The impact of changes to these is picked up in section four of this report, which deals with SR15.

<u>Table One:</u> Technical changes to funding assumptions since October 2015
The resources available in 2016/17 and future years will be £2.4m more than assumed in October 2015, before the impact of SR15 is taken into account

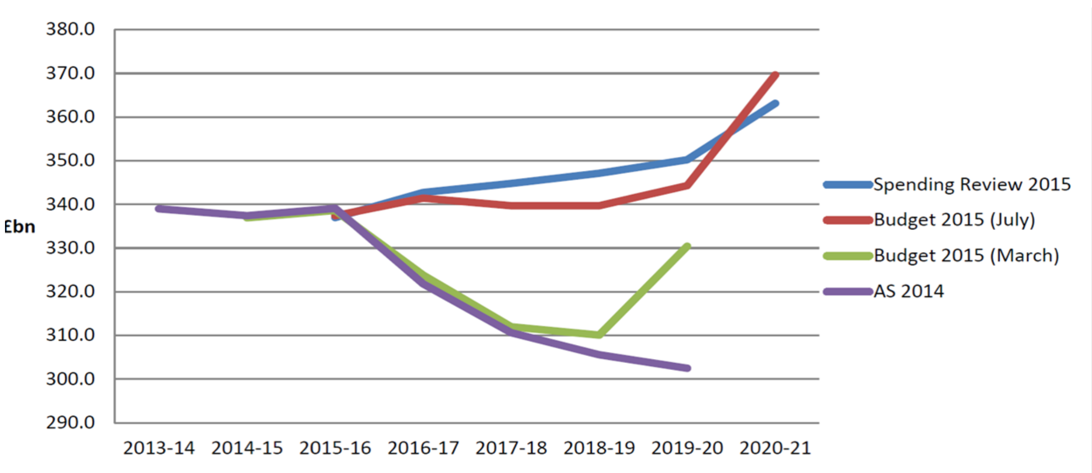
Funding source	**Funding assumed by year in October 2015**			**Funding assumed by year in December 2015**		
	2016/17	**2017/18**	**2018/19**	**2016/17**	**2017/18**	**2018/19**
	£m	£m	£m	£m	£m	£m
Council tax	92.4	93.6	94.8	94.5	95.7	96.9
NHB	7.0	7.0	7.0	7.3	7.3	7.3
Total	**99.4**	**100.6**	**101.8**	**101.8**	**103.0**	**104.2**
Change on previous assumption				2.4	2.4	2.4

4.0 Spending Review 2015 (SR15)

4.1 SR15 was announced on 25 November 2015. Until the local government finance settlement is announced, expected in week commencing 14 December, it will not be possible to be specific about the precise impact of SR15 and the changes to the financial planning assumptions that will be required as a result. However, SR15 provides significantly more information than was available in October, and it is therefore possible to update the assessment of the financial position, as set out below.

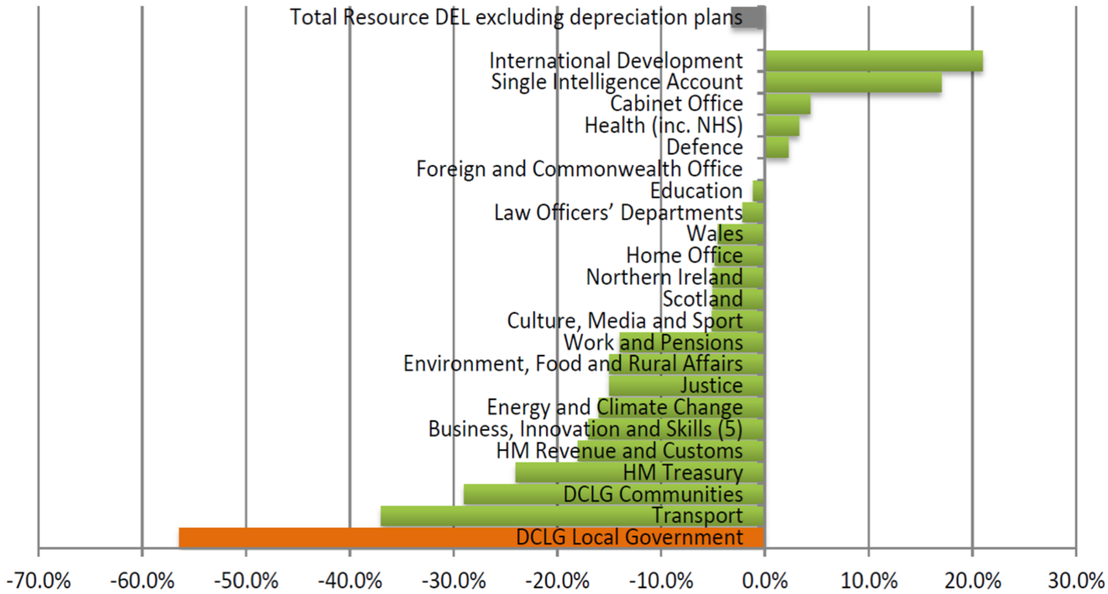
4.2 The headline, national, figures, are best represented by the government departments' "Resources Departmental Expenditure Limits" (RDELs), which show planned expenditure over the period to 2020/21. In aggregate, these are as set out in Chart One, overleaf.

Chart One: Aggregate RDELs 2013/14 to 2020/21
Planned government expenditure to 2019/20 has increased since the July budget, but by 2020/21 it will have fallen below previous estimates



4.3 Chart One shows that the Chancellor's decision to take account of anticipated future strong tax receipts and other economic factors has translated into increased total government expenditure. The Institute for Fiscal Studies (IFS) commented that this strategy has risks associated with it, as if future economic performance dips below that anticipated by the independent Office for Budget Responsibility (OBR) then the scope to absorb this without requiring additional cuts in expenditure will be restricted. The IFS placed the risk of this happening over the planning period as around 50/50. However, even if these forecasts are delivered, Chart Two, overleaf, shows that this does not translate into increased funding for local government.

Chart Two: Relative RDEL reductions by spending department
Local government spending will be cut by significantly more than for any other area of departmental expenditure



4.4 Although detailed analysis is yet to be concluded the initial estimates from the LGA and London Councils were that this 56% reduction in local government funding would translate into a 54% reduction in revenue support grant (RSG) over the period to 2019/20. As noted above, as the national RDEL figures for 2020/21 are below those estimated in the July budget the position may worsen after this.

4.5 The council's previous estimate of the reduction in RSG over this period was 66%, based on the average of the LGA and London Councils models. In the short-term, therefore, the immediate impact of SR15 is to improve the budgetary position for the next two to three years. However, looking beyond this, RSG is expected to be phased out by approximately 2020, to be replaced with the full localisation of business rates. For clarity, our current understanding is that this will mean that local authorities retain locally collected business rates, but have the power only to cut tax rates, not increase them. In principle this presents local government with significant opportunities to take charge of their own revenue and to direct it more towards local priorities. However, unless there is a satisfactory form of transitional arrangement for re-distribution boroughs such as Brent, where current government grants exceed the total business rates tax take, will be disadvantaged.

4.6 It is difficult, therefore, to anticipate with any precision what the long-term financial position will look like, until the details of the business rates localisation are announced. Officers expect a consultation on this to be published in the new year. Financial modelling will be carried out in the early months of 2016 to try and assess the impact, and to inform the council's responses to the consultation process for these radical reforms to local government finance.

4.7 However, for the purposes of budgeting up to 2018/19, which is a reasonable medium-term horizon then, subject to the inevitable caveats until final funding announcements are announced, the council could reasonably conclude that the savings required are now more likely than not to be towards the lower end of the previously announced estimates, i.e. closer to £40m than £55m.

4.8 In addition, although all of the implications of SR15 are not yet clear, it contained a number of clear policy announcements that will impact either directly on the council's financial position or will clearly have an impact on residents that will in turn impact on demand for services and hence costs. Members will appreciate that there have only been a few working days between the announcement of SR15 and the publication of this report. Therefore this section of the report may not be entirely comprehensive and will need to be updated as the detail emerges.

Measures that can impact directly on the council's finances

4.9 Council tax can now be increased by 2%, ring-fenced to social care, plus the standard 2% discretion that councils have always had without a referendum. Technically, this latter element still requires confirmation and a separate Ministerial announcement will be made in later in the planning cycle. However, the strong indications appear to be that this general cap will be set at 2%, and that no freeze grant will be payable.

4.10 A council tax increase of 1% currently raises about £0.9m, so the council could generate approximately £3.6m in 2016/17 by raising council tax by the maximum 4%. We understand that the precept for social care will require some form of technical validation, but given the cost pressures in adult social care officers do not anticipate that this will be problematic, should Members wish to exercise this power.

4.11 In considering council tax in February 2016 Members will formally be making a decision about the level for 2016/17. However, for financial planning purposes it is important to understand that council tax could in principle be increased in each of the three years 2016/17 to 2018/19. With the increasing council tax base and the cumulative impact of annual increases this means that the council now has the option to generate, by 2018/19, close to around £12m additional revenue from council tax. When the financial target of £40m to £55m was set no additional council tax increases were assumed, so this could contribute significantly to the target, and the impact on residents would also have to be closely considered by Members.

4.12 On housing, there will be a consultation on the New Homes Bonus, which will include a "preferred" option of saving at least £800m. There is therefore a strong presumption that these resources will be diminished in future years. To avoid creating 'cliff-edges' in future funding reductions officers plan to anticipate the likely outcome by removing NHB from the base revenue budget in order to use the remaining resources generated to fund the capital programme, reducing the need for more short-term borrowing and the pressure that this in turn would place onto the revenue budget.

4.13 SR15 also contained an announcement that the management fee for temporary accommodation will no longer be administered through housing benefit from April 2017, and other technical changes to the local housing allowance. Officers have not yet been able to complete financial models of the impact of these changes, as detail of the alternative funding is yet to be announced. However, SR15 suggested that a national fund of £10m would be sufficient to compensate local authorities for the cost of this change, which on the face of it is very significantly below the true cost. This should therefore be regarded as a major risk and will be closely monitored as more detail emerges.

4.14 The public health budget will be reduced by an average 3.9% per year in real terms to 2020. On the face of it this affords some relative degree of protection for these services, although it would still amount to a cut of some £2m for Brent over this period, assuming that the reductions were applied as a simple flat rate. Potentially of more concern was the announcement that government will consult on *"options to fully fund local authorities' public health spending from retained business rates receipts".* In the worst-case this could be read as implying that, in time, the ring-fenced public health grant may disappear altogether, and it is not clear how councils could fund the expenditure from business rates receipts without having to cut other services by the same amount. However, if a satisfactory redistribution mechanism for business rates is adopted then this may be more manageable.

4.15 The Better Care Fund will be increased nationally to £1.5bn by 2019/20. This will presumably mean more resources for Brent, but the detail will need to be worked through. Health and adult social care will be required to be "fully integrated" by 2020, but the practical implications of this, and detail of what the test of "fully integrated" means are not yet known. However, on the face of it, this, together with the doubling of the national funding for disabled facilities grants, must provide some relief of the pressure on the council's adult social care budgets.

4.16 The council's formal schools budget is presented in draft in section eight of this report. SR15 confirmed that a national funding formula will be introduced from 2017/18. The current assumption is that this is likely to divert funding away from London, possibly significantly. Excluding this, SR15 confirmed that the core schools budget will be protected in per pupil cash terms.

4.17 An apprenticeship levy of 0.5% of paybill will be introduced in April 2017. If this applies to Brent it would add around £0.5m to the cost pressures. Whether or not it applies will depend on how the legislation is framed and the extent to which it recognises the role that local authorities already play in creating apprencticeships, either directly or through their supply chains.

4.18 Funding for the first year costs of resettling Syrian refugees will also be provided, tapering down over the period to 2019/20.

Other policy proposals that may indirectly impact on the council's finances

4.19 SR15 contained a number of other policy announcements. These may not directly impact on the council's core funding, but can be assumed, in time, to have a significant impact on residents, which in turn will impact on the demand for council services and hence costs. Three of these are worth highlighting at this point.

4.20 Cuts to tax credits have been reversed. For many, this was perhaps the headline announcement in SR15 but, as has been pointed out by many commentators, reversing the cuts at this stage merely results in a delay, as the existing regime will be significantly changed when universal credit becomes operational. Members have already been briefed on the possible impact on residents of universal credit, and the potential it has to create demand for other local authority services.

4.21 SR15 confirmed previous announcements in housing policy, with some more detail about timetable for introduction. Extending the RTB to housing association tenants will be trialled during 2016/17, and as previously advised this will be funded, at least in part, by local authorities. Coupled with reductions to social rents the impact on the HRA will be substantial.

4.22 Finally, SR15 also confirmed previous announcements about childcare places for children aged under three and the means tests for residents to test eligibility. These will in turn affect demand for nursery places and so impact on other local authority costs in time.

4.23 It is not easy to sum up SR15 or its impact on Brent. Clearly, in the short-term the immediate reductions to core government funding look towards the lower end of officers' assumptions. This is helpful, because it will allow the council a little time to adjust to what remains an exceptionally challenging longer-term financial position. The LGA summed up the overall impact on local government by pointing out that *"even if councils stopped filling in potholes, maintaining parks, closed all children's centres, libraries, museums, leisure centres and turned off every street light they will not have saved enough money to plug the financial black hole they face by 2020".*

5.0 New budget proposals

5.1 The new budget proposals are set out in Appendix Two, and full details of each proposal are in Appendix Three. At this stage these are officer-led proposals, and authority at this stage is sought only to consult on these. Following consultation these will be put to the February 2016 meeting so that decisions on whether to adopt, amend or reject these can be taken informed by the results of that consultation.

5.2 However, officers' preliminary assessment is that the impact of adopting these proposals on front-line services would be relatively minor, certainly in comparison to some of the more drastic proposals that other councils are being forced to consider. This is not to imply that implementing the proposals would be straight forward or that there would be no impact on services: it is not possible to achieve significant reductions in the council's budget with no impact on services or staffing.

5.3 At a summary level the proposed new savings, and their phasing, are as set out below. Significantly more detail is provided in Appendices Two and Three.

5.4 Firstly, Members will recall that when the budget for 2015/16 was set in March 2015 a significant number of savings were agreed for 2016/17 and future years. These have already been consulted on extensively, and so no further action is required other than to build these into the budgets and business plans as appropriate, which is:

- Savings of £23.4m for 2016/17
- Savings of £4.3m for 2017/18; and
- Savings of £1.6m for 2018/19 (taken together these last two bullets total £5.9m, which was the figure referred to in the March 2015 report)

5.5 New savings of £4.8m are proposed under the heading of *'driving organisational efficiency'*. The profile of these is anticipated to be split evenly between 2017/18 and 2018/19, that is, £2.4m in 2017/18 and a further £2.4m in 2018/19. These savings will be achieved through cutting management and support costs, improving systems and processes, further delivering our digital by default agenda, as well as efficiency savings in CYP through the regionalisation of adoption services (mandated by government), improving retention of qualified social workers and hence driving down agency staffing costs and re-shaping early years' support. Staff consultation will of course be essential to achieve these savings, but the current expectation is that they will not impact significantly on the delivery of front-line services.

5.6 These savings will be consulted upon in line with the timetable set out in section six of the report. The results of that consultation will be made available for decision in February 2016.

5.7 New savings of £5.7m are anticipated, under the heading of *'civic enterprise'*. The profile of these is expected to be £3.5m in 2017/18 and £2.2m in 2018/19. 'Civic enterprise' is a broad term intended to cover those activities where the council can either generate better returns on its existing assets, for example through better marketing, advertising and sponsorship or increasing usage, more equitable contributions from partners and, where appropriate, reviewing charging regimes for paid for services that more realistically reflect the true economic cost of providing the service and/or the market.

5.8 The appendices contain fuller detail, but in summary the expectations are that:

- It will be possible to generate £0.75m p.a. in additional income from the council's assets by 2018/19. Of this, approximately £0.25m is expected to be generated by making more commercial use of the council's civic centre, in particular the Grand Hall, £0.3m through advertising and sponsorship and £0.2m through allowing wireless concessions to roof tops and lamp posts. The council currently receives relatively little advertising revenue, despite the obvious possibilities inherent in its location. By adopting a more business-like approach to selling advertising space it will be possible to generate additional income, reducing the need for cuts to other services, with an ethical policy to ensure the council's values remain at the heart of all we do. Similarly, the council has developed a strong IT service, which is now recognised as a market leader in London local government, providing services to the LGA and another council. There is every reason to assume that this model can be extended, which again would generate additional income to offset the need to generate savings elsewhere. The current assumption is that £0.75m additional income would be a realistic target.

- The council is committed to ensuring its residents get a fair deal when we work in partnership with other councils and agencies. Two areas have been identified where officers believe that the existing share of costs is not reasonable, and where re-balancing this should increase partners' contributions by £1.1m p.a.

- The council can also improve its approach to managing debts owed to it. Building on the successful pilot in adult social care, which has improved collection rates without presenting unreasonable demands to residents, officers now anticipate that additional income of £1m p.a. could be generated from tackling existing arrears better. This work will be carried out in the context of our financial inclusion strategy to make sure vulnerable residents are properly supported.

- Lastly, under this heading, benchmarking against CIPFA data shows that the council tends to generate less income from fees and charges to residents than other outer London boroughs. Increasing income to the 2014/15 average would generate an additional £2m income. In practice this would still mean that these services were tending to be subsidised, since this would not cover the full costs, and by 2017/18 it is also reasonable to assume that other boroughs will have increased prices. At this stage, approval is being sought to consult on the principle of achieving this level of income across a range of paid for services, from 2017/18 onwards. Once detailed proposals for individual pricing regimes are developed further specific consultation may be necessary. For the avoidance of doubt, no new proposals in respect of parking income are being brought forward by way of this budget.

5.9 New savings of £8.3m are proposed under the heading *'Making our money go further'.* The current anticipated profile of these is that £3.65m would be delivered in 2017/18 and £4.65m in 2018/19. Officers recommend that these can be built into the business plans for these years because the initial success of the shared service procurement arrangement with Harrow has demonstrated that this is realistic and achievable without significant impact on service outcomes.

5.10 Of these savings, the significant majority, £8m, are anticipated to be achieved through the re-procurement of a variety of contracts over the period up to

2018/19. Analysis shows that 161 contracts with a current combined annual value of £76m will be due for renewal between now and the end of March 2019.

5.11 The aim will be to approach the market with a cost envelope of current contract price less 10%. There will be some contracts where this will not be achievable and some areas where there will be a double count with department savings targets which has been allowed for in the target. Work will be ongoing with departments in advance of contract renewals to ensure that there is minimal impact on users of services whilst achieving the required savings. Pre market engagement with providers of services will also take place to identify innovative methods of service delivery to achieve savings targets

5.12 Additionally, Brent's street lighting PFI contract ends on 30 November 2018. This was the first UK street lighting PFI contract to be signed and, compared to later PFI deals, the contract is relatively favourable to the private sector partner and correspondingly less so to the local authority. Despite this, it has delivered its core requirement, new street lighting columns, which at the end of the contract will be handed back with five years' life guaranteed. In practice the average useful life will be longer. The nature of PFI (service concession) contracts is that the cost of the capital investment is spread over the length of the contract, and so the current annual cost, excluding clienting and energy costs is just under £3.2m. Once the contract ends a smaller capital maintenance and replenishment budget will need to be retained, as well as minimal costs to replace luminaires and so on. Even the costs of scouting will largely be met by the already agreed capital investment in a central management system. Consideration will need to be given to an appropriate sinking fund model to ensure that future replacement costs are spread evenly over the next 25 year period, but clearly there is the potential to deliver substantial savings to the revenue budget, provided that the long-term capital needs are not overlooked.

5.13 We will need to strike a careful balance between planned and reactive maintenance, in terms of roads and pavements, and will need to look at our criteria and priorities to ensure that our main thoroughfares and town centres are properly maintained. Detailed consideration of the current state of the highways and pavements will inform future plans to ensure that the impact on residents, pedestrians, cyclists and motorists is kept to a minimum. Officers are confident that savings of £0.3m can be driven out of the LOHAC contract and related budgets and that efficiencies can be driven out of the contract.

5.14 In summary, the impact of these savings, if they were all subsequently to be agreed, would be as set out in the table two.

Table Two: Summary savings

Savings of ££48.1m are set out in this report. This includes £29.3m of savings that have previously been consulted on and built into the budgets and business plans accordingly.

Description	2016/17	2017/18	2018/19	Total
	£m	£m	£m	£m
Savings previously agreed	23.4	4.3	1.6	29.3

Driving organisational efficiency	0.0	2.4	2.4	4.8
Civic Enterprise	0.0	3.5	2.2	5.7
Making our money go further	0.0	3.7	4.6	8.3
Total	**23.4**	**13.9**	**10.8**	**48.1**

6.0 Spending pressures, reserves and capital investment

6.1 The cabinet considered spending pressures in the round at its October meeting. At that stage costs were only estimated fairly generally, on the basis that these would be firmed up later in the process. Some further work is still required to finalise all of these estimates, and in particular it will be necessary to take full account of SR15 once this has been fully analysed. Although the headline messages are reasonably clear indications of the likely direction of travel it has not been possible to conduct a full analysis of the likely new responsibilities and costs for local authorities in the few days between the announcement and despatch of this report. Equally, changes in policy direction, or the pace of change, for example in respect of tax credits, will have an impact on the council's funding position and the likely implications for the cost of services which cannot yet be fully estimated. Accordingly, a comprehensive update will be brought to the final budget setting meeting, which is in any event in line with the council's normal financial planning process.

6.2 Of more significance, therefore, at this stage, are the council's investment plans for 2016/17 and, more importantly, for 2017/18 onwards, to which this report now turns.

6.3 The capital budget for 2016/17 was set in March 2015. This is in line with the minimum standards for capital budgeting: that it should be at least one year ahead of the main revenue budget plans. Work has been underway, led by the new officer Capital Investment Panel, to extend this out by at least three years if not further, and the results of this will be presented in the February budget report. At this stage the table below shows the capital budget originally approved in March 2015, adjusted for changes already agreed through the normal decision making process.

Table Three: Current capital programme
The approved general fund capital budget is approximately £240m

Capital programme	Original 2016/17	Revised 2016/17	2017/18	2018/19	2019/20
	£m	**£m**	**£m**	**£m**	**£m**
Schools	38.8	53.3	50.1	41.2	21.7
Highways & Footways	7.2	7.2	0.0	0.0	0.0
Street lighting	0.0	6.5	0.0	0.0	0.0
South Kilburn	21.7	14.8	21.5	6.4	8.7
GF Housing (ex NAIL)	4.9	6.2	0.0	0.0	0.0
NAIL	0.7	0.7	0.0	0.0	0.0
All others	2.0	2.6	0.0	0.0	0.0
Total	**74.4**	**91.4**	**71.6**	**47.7**	**30.5**

6.4 What is striking about the capital programme is how little of it is strategically determined by the council. This reflects the national funding position, where increasingly capital resources have, over the last few years, been essentially directed nationally, or at least regionally. It is a planned feature of the capital programme that the only allocations past 2016/17 at this stage are for ongoing major schemes: the council has deliberately chosen to defer budgeting for further ongoing investments over the last couple of years in order to facilitate a major review of the programme and its funding, and to reduce borrowing costs.

6.5 The schools programme is essentially funded nationally. In recent years the council has made difficult choices to allocate its own capital resources to supplement the national programme, but these are a relatively small proportion of the total. The council lacks the revenue resources to supplement this in the future without adding further pressure to its strained revenue budget, unless schools' forum agrees to add further resources from the DSG to meet the need.

6.6 Similarly, the programme for highways and footways has largely been funded from TfL resources. Again, the council has in the past chosen to borrow additional funds to finance upkeep and maintenance, but the revenue cost of this is again unsustainable in the medium term.

6.7 Where the council has chosen to act as a catalyst for regeneration it has a good record to date. Significant developments, for example at Wembley and in South Kilburn have been enabled through leveraging in private resources and by imaginative recycling of the council's own assets, through disposal of non-core assets. This is a good model for regeneration, and should continue, but as more and more non-core assets have been disposed of it becomes harder and harder to sustain this into the future. Even the, largely welcome, changes to development finance for local authorities, with increasing reliance on CIL and less use of s106 agreements have not wholly offset the issues this gives rise to. The council is still mostly in the position of using its capital programme to mitigate the impact of development rather than driving it.

6.8 There are noteworthy exceptions to this. The council has invested its own capital resources in the NAIL project, which has helped to transform aspects of the adult social care service, generating significant revenue savings whilst enhancing the independence of service users. More recently investment has been approved in street lighting, which again will generate significant revenue savings whilst reducing the carbon footprint through more modern and efficient street lighting apparatus.

6.9 However, to meet the challenges of the next few years, which have been set out more fully in this report, it is clear that the approach to capital investment will need to change. Many local government services are capable of being transformed through capital investment. Although it is still the case that the nature of many services remains, and will remain, rooted in daily costs such as for social workers and street cleaners, it is possible to transform these by applying capital resources in more cases than is often assumed. The NAIL project is merely one good example of this.

6.10 The current macro economic climate strongly favours capital investment, with interest rates at historically low rates. In addition, the council has sensibly maintained a strong balance sheet through the first few years of the austerity programme. The easy choice would have been to use to use this to delay revenue savings. Whilst this would have preserved a few services for a brief period of time it would not have been sustainable, and as a strategy would only have left the council facing much more drastic cuts now. As these budget proposals show, the council is now in a position to achieve at least most of the savings it now needs to balance its 2017/18 budget (in addition to 2016/17) with relatively little further reductions to services.

6.11 This is not to suggest that the new proposals introduced by way of this report will have no impact on services, but merely shows that this strong approach to long-term planning has served the council well. In addition, a review has been carried out of the balance sheet. This has shown that a number of risks were being counted on departmental balance sheets and also covered by some of the corporate provisions that any well run organisation needs to preserve. By centralising these resources it will be possible to release funds for further capital investment.

6.12 Going further, the council may also need to develop a greater appetite for taking on modest and well managed financial risks in its capital programme. Brent holds significant opportunities for financial investment. Its population is well served, in the main, by transport links, and property prices have risen accordingly. Although this presents significant and substantial issues in delivering services, and for residents, especially as property prices rise beyond affordability for all but a handful of residents, it also means that taking on a more acquisitive property strategy is likely to help secure the council's longer-term financial future. By investing now in the right property assets the council can, through its unique combination of regeneration powers and functions and ability to borrow at very low rates, generate reductions to its ongoing costs.

6.13 This investment strategy will need to be developed over the budget cycle. It will have a variety of different features, balancing immediate service needs and long-term investment opportunities and the mix of revenue and capital funding for each area. As proposals are worked up they will be brought forward for decision.

7.0 Budget process and consultation

7.1 The council's minimum legal duty in February 2016 will be to set a budget and council tax for 2016/17. As set out in this report, although decisions about council tax have still to be fully considered and taken, the service budget for 2016/17 can largely be set on the basis of savings proposals which have already been consulted on extensively, subject to the results of the local government settlement.

7.2 For clarity, these are the proposals set out in Appendix One. These were agreed in March 2015, following consultation at each Brent Connects meeting, two large scale externally hosted public Q&A events and a well-publicised campaign on the council's website which attracted many responses.

7.3 Clearly, in the consultation process set out below, it will be open for respondents to raise issues about these proposals if they so choose. However, on the basis that they have already been consulted on extensively, and agreed to go forward when other budget proposals were explicitly rejected through that process, the reasonable working assumption is that these proposals will proceed unchanged. Respondents will, instead, be invited to focus their attention on the new proposals for 2017/18 and 2018/19. These are summarised in Appendix Two and set out in detail in Appendix Three.

7.4 Brent Connects is a well established consultation mechanism. It is therefore proposed that the proposals in Appendix Two should be taken to each of the Brent Connects meetings and to two further public meetings.

8.0 Schools

8.1 This section of the report sets out the school budget proposals for 2016/17 which is provisionally estimated as £221.6m. This relates only to the schools funding formula which covers mainstream schools in years' reception to eleven. The provisional budgets have been calculated assuming the same funding total as 2015/16.

8.2 In 2015/16 the DfE distributed additional £390m revenue funding to the least fairly funded local authorities with Brent receiving a share of £11m. The DfE has confirmed that this funding will continue to be included within DSG allocations.

8.3 The Schools Forum was consulted on the provisional budget in October and as a result recommends the 2016/17 provisional budget.

8.4 The provisional schools' funding calculations for 2016-17 are based on:

- The October 2014 NOR (Number on Roll);

Any known changes such as rates, amalgamations, growing free schools and pupil number adjustments for expansions.

8.5 The total funding for distribution is assumed to be the same in these calculations, however as the number of pupils in Brent grows, the funding is required to stretch further. In order to distribute funding across a greater number of pupils, the amount per pupil for all pupil-led funding factors had to be reduced. As a result all schools, except new schools and those that are being permanently expanded, will realise reductions in funding for 2016/17. It may however be the case that when provisional DSG allocations are announced in December that Brent will receive more funding due to growing pupils on roll at October 2015, and an increase will be applied to the funding pot which would reduce the level of funding reductions shown.

8.6 In addition, the Schools Forum previously agreed for Brent's primary: secondary ratio to remain inline with the national ratio in response to Brent having the lowest ratio in England in 2013/14. Pupil-led funding factor adjustments described in the above paragraph have therefore taken this into account.

8.7 No further changes were applied to the funding formula for 2016/17.

8.8 As a result of the changes explained above, whilst a small minority of schools received protection through the minimum funding guaranteed (MFG) in 2015-16, the majority of schools would receive MFG in 2016-17. The MFG ensures that mainstream schools are guaranteed to not lose more than 1.5% per pupil for pupils in years' reception to 11.

8.9 The schools' provisional budget is calculated based on the principles above, using pupil numbers as at October 2014 census. The final schools' budget will be calculated in December based on the most current pupil numbers as at October 2015 census.

9.0 Financial Implications

9.1 There are no direct financial implications of agreeing the recommendations of this report. However, the entire report is clearly highly relevant to the council's overall financial standing.

9.2 The overall budget setting timetable for the 2016/17 is set out overleaf:

Date	Activity
23/11/15	Full Council: First Reading debate
14/12/15	Cabinet: Collection Fund Surplus
25/01/16	General Purposes: Council Tax Base and Business Rates Estimate
08/02/16	Cabinet: Budget Proposals 2016/17
22/02/16	Full Council: Budget and Council Tax Setting

10.0 Legal Implications

10.1 A local authority must budget so as to give a reasonable degree of certainty as to the maintenance of its services. In particular, local authorities are required by the Local Government Finance Act 1992 to calculate as part of their overall budget what amounts are appropriate for contingencies and reserves. The Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year. The Chief Financial Officer is required to report on the robustness of the proposed financial reserves.

10.2 Under the Brent Member Code of Conduct members are required when reaching decisions to have regard to relevant advice from the Chief Finance Officer and the Monitoring Officer. If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a breach of the Code by individual members if it can be demonstrated that they have not had proper regard to the advice given.

10.3 In accordance with the Local Government Finance Act 1992, where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a In accordance with the Local Government Finance Act 1992, where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting: (a) any decision relating to the administration or enforcement of Council Tax (b) any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax or (c) any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation. These rules are extremely wide in scope so virtually any Council decision which has financial implications is one which might affect the making of the budget underlying the Council Tax for next year and thus is caught. The former DoE (now DCLG) shared this interpretation as it made clear in its letter to the AMA dated 28th May 1992. Members who make a declaration are not entitled to vote on the matter in question but are not prevented by the section from taking part in the discussion. Breach of the rules is a criminal offence under section 106 which attracts a maximum fine of £1,000.

11.0 Diversity Implications

11.1 Under the Public Sector Equality Duty (PSED) in the Equality Act 2010, Brent Council is required to pay due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different protected groups when making decisions. The PSED does not prevent decision-makers from making difficult decisions in the context of the requirement to achieve a significant level of savings across all operations. It supports the Council to make robust decisions in a fair, transparent and accountable way that takes into account the diverse needs of all our local communities and/or workforce.

11.2 Members are reminded that the budget can be described as a financial plan of the Council's current operational intent. Where known, the equality impact of change must be disclosed. In March 2015 the Council agreed its budget for the current year, and a number of other proposals to be built into the budget from 2016/17 (Appendix One). These proposals went through extensive consultation and were subject to full Equality Impact Assessments. No changes to these are proposed.

11.3 The new saving proposals for 2017/18 and 2018/19 are set out in Appendix Two, with more detailed information on each proposal available in Appendix Three. All saving proposals have been subject to the Council's Equality Impact Assessment screening process to assess their potential/likely impact on service users and/or staff with protected characteristics. The results of this screening is shown in the appendices.

11.4 This report is seeking authority to consult on these proposals. The final proposals will be put to the February 2016 meeting, and will be informed by the consultation and full Equality Impact Assessments so that Members can make informed decisions on whether to adopt, amend or reject these.

12.0 Staffing Implications

12.1 None directly as a result of this report.

13.0 Background Information

13.1 Report to Cabinet, October 2015 – Budget Strategy and Financing Update

13.2 Report to Council, 3 March 2015 – Budget and Council Tax 2015/16

14.0 Contact Officer

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