



## **Cabinet**

24 July 2017

### **Report from the Chief Finance Officer**

Wards affected: All

## **July Finance Review**

### **1.0 Introduction**

- 1.1.** Since 2010 the council has delivered against a series of challenging financial targets, through a combination of effective financial management and cost control and more innovative approaches to investment and demand management. This approach has been very effective, and Brent's financial planning, management and culture of financial accountability were identified as strengths in the recent LGA peer review. The pace of responding to these changes has at times, and of necessity, been rapid and whilst this has generated a valuable source of momentum and creative ideas in the organisation it has at times made it difficult to pause and reflect.
- 1.2.** This report has therefore deliberately been planned to create that space for reflection on Brent's future financial strategy. It comes at a carefully considered time. The budget for 2017/18 was set in February 2017, and on another report on this agenda the first forecasts against that budget are reported. In February 2017 Council also agreed the business plans for 2018/19. In February 2018 it would be open to Council, subject to all the usual planning uncertainties and caveats, simply to re-confirm the proposals set out a year earlier, which would result in a balanced budget for the 2018/19 year. For the avoidance of doubt, achieving this would mean continuing with the previously planned 3.99% increase to council tax for 2018/19.
- 1.3.** Brent therefore, by design, has time to work out how it should approach its budgeting for the 2019/20 year and beyond. This will need to take into account the ongoing need to find efficiencies and cost savings in service delivery that any well managed organisation would want to deliver year on year. This report does not set out the detailed process or timetable for this; rather it introduces the considerations that will need to be taken into account in that process, in order to ensure that there is some space to take views into account before

starting to identify detailed new proposals. Of course, the benefit of the council being ahead of the curve in its financial planning is that there will be more opportunity to assess the financial opportunities and efficiencies from its creative strategies – such as the outcome based reviews and recently approved digital strategy – before having to consider possibly more problematic decisions about the level of services to be provided.

**1.4** However, this report goes beyond the simple estimation of the pressures that would need to be managed in that process. It sets out the changes to the local authority finance regime in its various components – business rates devolution, schools, integration with health services and finance and so on – and the strategic consequences of these for Brent, linked to the local factors that will influence decisions on those. It must be stressed at this stage that there is a relatively high degree of political uncertainty following the recent General Election, and so forecasting the timing of funding and policy decisions that will affect local government is difficult; and forecasting their impact much more so.

**1.5.** This report is structured as follows:

- Recommendations for cabinet to approve;
- Overview of the financial and macro-economic climate following the general election;
- Issues arising from review of the 2017/18 budgets as at May 2017;
- Implications of business rates devolution;
- Consequences of national school funding reforms in Brent;
- Effects of further financial integration with NHS services;
- Effects of the Homelessness Reduction Act and the Flexible Homelessness Support; and
- Revised forecast saving targets for 2018/19 to 2021/22.

## **2. Recommendations**

**2.1.** That Cabinet note the report.

**2.2.** That Cabinet agree the budget adjustments set out in Appendix A for service areas to enable spend to be contained within agreed budgets for 2017/18.

**2.3.** That Cabinet note the Capital budgets and delegate authority to the Chief Finance Officer to re-profile 2016/17 carry-forward budgets as required.

**2.4.** That Cabinet note the recent developments for Business Rates devolution from 2019/20 and that further updates will be brought to Cabinet as the legislative position becomes clearer.

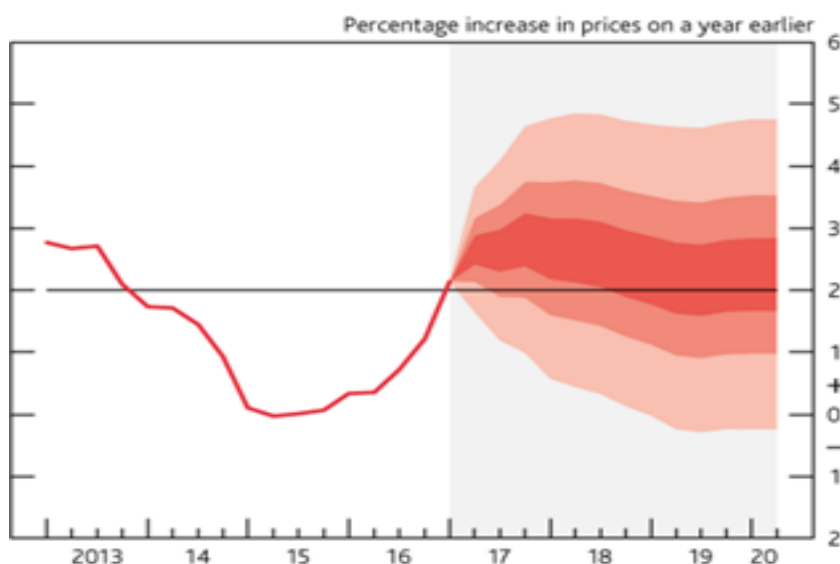
**2.5.** That Cabinet delegates to the Chief Finance Officer, in consultation with the Leader of the Council, authority to enter into negotiations in respect of participating in a pilot business rates pool for London in 2018/19, and to report back to Cabinet in autumn 2017 as the position becomes clearer.

- 2.6. That Cabinet note the position on the School funding reform proposals.
- 2.7. That Cabinet note the effects of further integration with NHS services and agree to use the Improved Better Care Fund to increase the Adult Social Care base budget.
- 2.8. That Cabinet note the financial implications of the Homelessness Reduction Act and approve the use of the new Flexible Homelessness Support Grant to increase the Community Wellbeing base budget.
- 2.9. That Cabinet confirm their intention, as previously announced and subject to consultation and any other material changes to circumstances, to increase council tax by 3.99% in 2018/19, on the basis that this means that no new savings proposals need to be developed.

### **3. Policy, financial and macro-economic climate**

- 3.1. Local government is now facing a greater period of uncertainty after the inconclusive result of the general election on 8 June 2017. Wider issues of the overall approach to the Brexit negotiations and indeed whether the current government can retain its position in Parliament are of course very much to the fore in the national debate. However, more locally the uncertainty has a significant impact on local government. Business rates devolution had the potential to be one of the most significant changes to the local government finance system for a generation, but the Queen's Speech on 21 June 2017 did not include a Local Government Finance Bill which would have been an essential step in taking this forward. It remains to be seen how the legislative process will develop, as DCLG have not yet given any clear indication or steer, and the original planned implementation date of 1 April 2019, which was always ambitious, is now surely impractical, if the policy is taken forward at all. Other key policies affecting local government, such as on school funding, adult social care or housing must similarly be viewed as uncertain.
- 3.2. At the national level the debate over Brexit is likely to dominate political proceedings. Whilst there is much informed, and ill-informed, speculation about what sort of deal might be negotiated and what its national and local consequences might be the reality is that it is too soon to be able to make any sort of reliable estimate of the consequences for local government. What is reasonably certain is that the Brexit negotiations will surely take up a significant proportion of government resources, such that other legislative programmes may be subject to delay or other lack of certainty. This is perhaps particularly likely to be true of local government related legislation which is rarely a high political priority. That said, one could reasonably argue that social care funding is now receiving more political attention at the national level than for many years, and so those changes discussed later in this report are perhaps more likely to be incorporated into the overall local government finance system than other aspects.

- 3.3.** For now, it is too early to predict how the government will respond on these issues and on the wider issue of austerity more generally. It is worth remembering that whilst the emphasis seems to be less on austerity than previously, local government appears to remain relatively far down the list of spending priorities, compared with say the NHS, Education and many other areas of public policy. There is certainly no indication of additional general funding for existing services coming to local government, although measures in some areas like social care may yet be brought forward.
- 3.4.** The rate of inflation rose to 2.9% in May up from 2.7% in April, according to the latest Office for National Statistics figures. Inflation is now at its highest since June 2013 and remains above the Bank of England's target of 2%. The uncertain political environment, coupled with upcoming Brexit negotiations, is already having an impact on sterling and could create further inflationary pressures in the near future. This impacts people on low incomes as the cost of essentials such as food, energy and clothing rise faster than growth in wages. In addition, these inflationary pressures will mean that the Council will pay more for goods and services, including contracts that are subject to contractual uplifts. The Council allocated a budget of £3m in 2017/18 for contractual inflation based on an estimate of 2% growth in inflation on existing contracts. Therefore, in theory, should the 2.9% inflation rate be sustained, the additional cost would be about £1.5m above that already budgeted for 2018/19 (i.e. the total inflationary cost would increase to approximately £4.5m. In the fan chart below, the bank of England maps out its inflation forecast, where it expects the consumer prices index to rise to 3% by the autumn. The lighter the colour the less likely the outcome, so this shows the current modal forecast slightly above the council's budgeted 2%.



- 3.5.** The Bank of England has kept interest rates low at 0.25% since August 2016, which of course has followed the longest sustained period of low interest rates since the nineteenth century. This impacts the council's income levels as our interest on earnings and investments are lower. The normalising of monetary policy will take account of the emergence of inflationary pressures but is

complicated by uncertainties in economic growth created as a result of Brexit and other macro-economic factors. Our treasury advisors ArlingClose recently commented that *'the rise in inflation is unlikely to prompt monetary tightening by the Bank of England'*, indicating that in the we can expect interest rates to continue to remain at low level in the near future. Any increases are likely to be slight and gradual.

#### 4. The Council's current year revenue budget and forecasts

- 4.1. The table below show the council's current revenue budget and forecasts for 2017/18. Overall, the general fund and housing revenue account are on target and the dedicated schools grant is forecast to underspend.

Department	Budget as per July Finance Review	Forecast spend	Variance
	£m	£m	£m
Children & Young People	40.6	40.6	0
Community Wellbeing	123.8	123.8	0
Regeneration & Environment	30.4	30.9	0.5
Resources	29.9	29.9	0
PPP	10.1	10.1	0
Central Items	(234.8)	(234.3)	(0.5)
<b>Total (General fund)</b>	<b>0</b>	<b>0</b>	<b>0</b>
DSG funded activity	0	(0.4)	(0.4)
HRA funded activity	4.0	4.0	0
<b>Overall position</b>	<b>4.0</b>	<b>4.0</b>	<b>(0.4)</b>

- 4.2. These forecast results are subject to various risks and uncertainties as set out more fully in the Financial Forecast report on the same agenda. This shows that budgets, expenditure and income are being properly managed. These forecasts have been developed on the basis that a series of budget virements, as set out in the table below, will be agreed (as they are recommended to be agreed by way of this report).
- 4.3 Elected councillors and other interested parties will recall that during 2016/17 the budget was managed successfully at the council-wide level, but that there were a number of substantial over and under spends within individual departments. These proposed virements address the structural causes of those results, and can be afforded within the overall contingencies allocated in the budget.
- 4.4 Of the amendments proposed, most, as set out in Appendix A, are either one-off funding, which can be met through the use of contingencies established for such purposes, or reflect changes to government financing discussed throughout this report, or else are integral to development of the growing capital programme, and will be financed accordingly. The sums proposed to be

allocated to meet the identified shortfalls in the CYP and Legal budgets can be met from the general budget contingency, as well as the additional money being allocated to finance LLW being paid by the council's contractors. The proposals are therefore best seen as reallocations of existing budgets, and do not impact on the council's ability to deliver other policy priorities.

- 4.5** The proposed amendments are described in greater detail in Appendix A and are summarised in the table below:

	COMMUNITY WELLBEING	CHILDREN & YOUNG PEOPLE	RESOURCES DEPARTMENT	PERFORMANCE POLICY & PARTNERSHIPS
	£m	£m	£m	£m
Budget adjustments	0	1.0	1.7	0.3
Government funding	8.1	0	0	0
Procurement savings	(1.0)	(0.9)	(0.6)	(0.2)
Civic Enterprise savings	0	0	(0.1)	(0.2)
Total Budget Adjustments	7.1	0.1	1.0	(0.1)

- 4.6** These budget adjustments will enable services to manage to realistic budgets in 2017/18 and will therefore enhance financial management and control. This is an essential part of planning for the further savings that we know we still need to identify in 2019/20. That said, there are still challenging savings to be delivered in 2018/19, particularly in relation to procurement savings. Further scrutiny will need to be placed on every procurement decision to ensure the required savings are delivered. Focus will also need to be placed on fees and changes and NAIL savings, where the targets are demanding but not unrealistic.

## **5. The Council's current year capital budget**

- 5.1.** While 2016/17 was taken up with the development and planning of its Investment strategy, 2017/8 will be focused on its delivery.
- 5.2.** The Capital programme as a whole has a 2017/18 budget of £228.4m, £218m of which was approved at full Council in March, two-thirds of which relates to Housing. The Forecast Outturn is currently £199.2m or 87% of the target. It is forecast to underspend by £29m. This is summarised in the following table and further details are contained within the Financial Forecast report on the same agenda.

	<b>Budget</b>	<b>B/fwd* + Additions</b>	<b>Revised Budget</b>	<b>Forecast Outturn</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Corporate Landlord	1.6	0.6	2.2	2.2	0.0
Housing Care Investment Board	153.8	(1.1)	152.7	126.8	(25.9)
Public Realm Board	14.0	8.7	22.7	20.8	(1.9)
Regeneration Board	7.1	1.6	8.7	7.4	(1.3)
Schools Programme Board	30.6	(0.1)	30.5	30.5	0.0
South Kilburn	11.2	0.3	11.5	11.5	0.0
<b>Grand Total</b>	<b>218.3</b>	<b>10.0</b>	<b>228.3</b>	<b>199.2</b>	<b>(29.1)</b>

\*as per draft accounts

- 5.3.** At the end of 2016/17 £12.9m of the capital budget was required to be brought forward (reflected in the table above) and it is proposed to be re-profiled into 2018/19, except for when 2017/18 is the last year of a particular capital scheme.

## **6. Business rates devolution**

- 6.1.** Prior to the general election the legislative timetable would have seen business rates devolution come into law for 1 April 2019. This would have been by way of the enactment of the Local Government Finance Bill which was instead deferred with the rising of Parliament. Following the election, the Queen's speech did not include a revived Local Government Finance Bill, however DCLG are seeking Ministers' views on the priority and direction of travel for broader funding reforms, and on business rate retention in particular. DCLG have not indicated that the policy is not being taken forward, and appear still to be encouraging authorities to pilot pools (which is discussed in paragraphs 6.6 to 6.10). Arguably then, the policy is delayed not abandoned, although of course there is no certainty. This section of the report has therefore been written on the assumption that business rates will still be devolved, and hence explains how officers anticipate how the new system will work and sets out key next steps. An update will be brought forward if appropriate, once the position is clearer.
- 6.2.** A fundamental principle of the new system is that on the first day of operation no authority should be better or worse off than it was under the old system. This is achieved because individual authorities will not retain their own business rates – which would clearly be unsustainable given the enormous disparity in business rates base between, say, Westminster and Harrow.
- 6.3.** Instead, on implementation, each authority will continue to pay some business rates into a national pool, and either receive a grant from that pool sufficient to meet its assessed spending needs (for top up authorities like Brent, where spending need exceeds the local tax take) or make a further payment into the pool (for tariff authorities like Westminster where the reverse is true). As part of that process the main revenue support grant (RSG) will be removed, and local authorities will acquire responsibility for the delivery of some services that

are currently funded centrally. This is necessary, because the national tax take from business rates exceeds – by around £14bn – the total cost of the main RSG to local authorities.

- 6.4.** In principle this should be fiscally neutral. Local authorities will acquire responsibility for financing – and running – more services than they do now, but they will also receive additional funding through business rates equal to the current cost of delivering those services. Of course, there are considerable technical difficulties to be worked through to ensure that this principle of fiscal neutrality is maintained, and Brent will work with the LGA and London Councils to manage these risks. In terms of the narrow point of the calculation of the required savings target, this should therefore not be affected by whether business rates devolution proceeds according to schedule or not. However, for planning purposes a contingency sum of £2m has been added to the 2020/21 budget requirement at this stage, against the risk that the technical details are not worked through satisfactorily. Any pressures arising in 2019/20 will be managed through reserves.
- 6.5.** It is only *after* the implementation of business rates devolution that local authorities begin to retain the benefits of additional business rates generated in their local area. Similarly, they are exposed to the risk of reduced tax income if business rates fall. Increases are subject to a levy, which is used to fund at a national level a safety net, so that no local authority can see its business rates income reduced by too much in any given year. Also, for the avoidance of doubt, the power to increase the tax rate is not being devolved, although local authorities are free to set a lower rate if they so choose, which would of course result in reduced tax income to fund services unless additional business were attracted to the area to overcome this initial loss.
- 6.6.** Further updates will be brought to Cabinet as appropriate as the legislative position becomes clearer. However, there is one further issue that needs some consideration at this stage. DCLG have previously indicated quite strongly that they would like to see all 32 London boroughs plus the City of London participate in a pilot of a 'business rate pool' for 2018/19. This would only proceed on a voluntary basis, and would require the unanimous agreement of all 33 authorities for it to proceed, which will clearly not be straightforward. However, as discussions at London-wide level are underway on the desirability, or otherwise, of such a pool then it is appropriate to set out the issue here, together with appropriate delegations of authority.
- 6.7.** Given the technical complexities of the subject matter, a relatively plain English Q&A document produced by London Councils is attached as Appendix C. Further briefings for elected councillors will be produced as detail of the London-wide proposals emerges. For the purposes of this report at this time, it is important to understand that if business rates are pooled across London the essential features of the system are still similar. Business rates growth will be retained by the local authorities, and the cost of a fall in total business rates will be suffered by those authorities. These are exactly the same opportunities and risks as exist under devolution without a pool, except that they apply at a London-wide level rather than at the individual borough level.



- 6.8.** A pool would need to agree a mechanism to share the benefits of any growth, which would need to be agreed unanimously. The two reasonably quantifiable benefits of joining a pilot pool in 2018/19 would be access to 100% of business rates a year early (with no immediate increase in the services to be funded, which would instead follow on 1 April 2019 or whenever the new system was implemented) and an exemption from the levy payment which would otherwise fund the safety net. If growth in 2018/19 followed the latest estimates for 2017/18 it has been estimated that this would therefore generate a one-off £234m benefit across London for joining a pilot pool, or around an average of £7m per borough (although the growth in business rates that has generated this is distributed very unevenly). Of course, a lower figure is entirely possible, but the example serves to illustrate the potential direct financial benefit of joining a pool on the pilot basis being offered.
- 6.9.** Participating in a pilot pool would not bind the council to joining a pool once the full system comes into effect, so it might also be viewed as a relatively low risk way of testing the new system, especially as DCLG have promised a 'no detriment' guarantee to authorities so doing.
- 6.10.** The matter is due to be discussed at the London Councils Leaders' Committee on 11 July 2017. Provided that this results in a sufficiently broad consensus to pursue the policy a formal agreement would need to be drafted and consulted upon, leading to an agreement in principle by around October and then signed off by each authority as part of its formal budget setting process. At this stage, therefore, Cabinet does not need to agree whether or not to participate in a pool, or under what terms, but it is recommended that it delegates to the Chief Finance Officer, in consultation with the Leader of the Council, authority to enter into negotiations in respect of participating in a pilot business rates pool for London in 2018/19, and to report back to Cabinet in autumn 2017 as the position becomes clearer.

## **7. School funding reforms**

- 7.1.** The consultation period on the school funding reform proposals closed in March 2017, and it was expected that the results of the consultation and the Department for Education's response would be released in the summer or autumn. Following the general election, and the manifesto pledges of the main parties, it is uncertain how the new government will proceed.
- 7.2.** The proposals for a national funding formula would redistribute funds across the country to address perceived inequities, and indicated that Brent primary schools would lose funding on a cash per pupil basis of 1.5%, and that special or high needs funding would be cash flat (and therefore a considerable real terms reduction). The picture for Brent secondary schools was more mixed with some receiving increased allocations.
- 7.3.** The proposals would not have distributed funding to address specific cost pressures that schools are experiencing, these are; the national living wage, higher employee contributions to national insurance and the teachers' pension scheme, and the apprenticeship levy. Of course, these pressures are not

fundamentally different to those faced by all other local authority services. The National Audit Office report 'Financial sustainability of schools' estimated that these cost pressures amount to an 8% real terms reduction per pupil between 2016/17 and 2019/20. For most Brent schools this would be in addition to a loss of formula funding, and would equate to a reduction in spending power of 10% or more by 2020.

- 7.4. The Conservative manifesto did however pledge to allocate more funding to the formula, *'we will make sure no school has its budget cut as a result of the new formula'*. If this is enacted Brent primary schools would likely be better protected but only on a cash rather than real terms basis. The Queen's speech at the opening of parliament made clear the government's intention to pursue what is described as a fairer funding formula, and also included a commitment to increasing the overall school budget as well as continuing the Pupil Premium. It remains to be seen whether this will be sufficient to protect schools from the spending power reductions referenced above.
- 7.5. In 2016/17 overall school balances decreased by £2million to £20million, though this was not consistent across all schools with half increasing their balances. Whilst the average balance for a Brent school is a reasonable 12% of income, there are a number that hold under 5%. Although schools are adjusting and have set budgets that avoid a year end deficit for 2017/18, it is clear that cost pressures are starting to be felt, and declining balances are expected. If current spending patterns continue and funding is cut by 1.5% it is estimated that 13 primary and nursery schools could have deficit balances by the end of 2018/19.
- 7.6. The Dedicated Schools Grant underspent by a total of £5million in 2016/17, this is 2.5% of the £195 million allocated to Brent. The underspend was principally caused by lower expenditure on school growth and support for rising rolls as the pace of expansion slowed down. There was also an underspend in the inclusion service which makes up the main body of the high needs block, with lower spend on out of borough Special Educational Need (SEN) placements than anticipated.
- 7.7. The expansion budget of £3.5 million and rising rolls budget of £1.1 million have underspent by a total of £2.1 million, as the borough did not see the same rapid growth and need for school expansions as in recent years. Both of these budgets are designed to allocate funding to help schools meet the in-year revenue costs of increased pupil numbers, and use criteria and thresholds to calculate individual school allocations. Fewer additional forms of entry and bulge classes were required than in previous years, so expansion allocations totalled only £1.9 million. Similarly, only £0.6 million had to be allocated to schools with rising overall pupil numbers. Growth budgets were reduced by £1million and funds reallocated in setting the 2017/18 DSG budget.
- 7.8. There was a further significant underspend on SEN placements of £1.9 million. This is consistent with fewer external placements for school age children being made, and the borough being able to accommodate more of its High Need placements.

- 7.9 Total DSG income also exceeded that budgeted for in 2016/17. The final DSG allocations were confirmed after the budget was set and reflected the increase in pupil numbers to October 2015 and early years' numbers to January 2016. The DSG income and expenditure budgets were updated for 2017/18 to allow for pupil growth.
- 7.10 Schools Forum, which acts as a consultative body, will consider how best to use this underspend of £5million, and is expected to make recommendations to the Council as part of the budget setting process for 2018/19, which Cabinet can then consider. The recommendations will be in accordance with DSG regulations and guidance, and could include setting budgets towards collective priorities, in addition to being used to boost funding to mainstream and special schools. Whilst any increase in allocations will help the financial position of schools, it would not be a sustainable answer to the inflationary pressures they now face.
- 7.11. School leaders face a challenging financial landscape of inflationary pressures and uncertainty over future funding. Budgets will need to be carefully monitored and reviewed as funding announcements are made.

## **8. Adult social care and NHS integration**

- 8.1. At the Spending Review 2015, the Government announced its ambition to integrate health and social care by 2020 so that it feels like one service to service users. The ways local areas integrate will be different and Government recognises the integration efforts that are already happening, including through the Better Care Fund (BCF), Sustainability and Transformation plans (STP) and local devolution. There will be no separate process for integration plans. Instead, all local areas will be required to set out how they expect to progress to further integration by 2020 in their BCF 2017-19 returns.
- 8.2. The BCF is the national programme, through which local areas agree how to spend a local pooled budget in accordance with the programme's national requirements. The pooled budget is made up of CCG funding as well as local government grants, of which one is the improved Better Care Fund (iBCF). The iBCF was first announced in the 2015 Spending Review, and was increased in the 2017 Spring Budget. The key figures are set out in the table below.

	2017/18 £m	2018/19 £m	2019/20 £m
iBCF National	1,115	1,499	1,837
iBCF Brent allocation	6.9	9.3*	11.4*

\*Brent's Allocation's for 18/19 and 19/20 are indicative estimations.

- 8.3. Brent's allocation of iBCF funding is £6.9m for 2017/18 and estimated as £9.3m for 2018/19 and £11.4m for 2019/20. These grants represent substantial

investment in social care in the short term, but when they were announced government explicitly did not build them into the long-term funding baseline. In theory, then, Brent's allocation in 2020/21 is nil, like all other local authorities. One could reasonably argue that whatever view a government at that time takes it would be most unlikely to go to this extreme, but that is the current formal position based on what government has definitely announced. Given this substantial uncertainty the council therefore has a difficult balancing act. If this leaves a gap in 2020/21 (i.e. if the funding is withdrawn entirely in that year) then that will have to be addressed at that time, but this is considered unlikely for the reasons set out, despite the political uncertainty.

- 8.4 To put the requirement of this funding in context, demand for Adult Social Care increased significantly in 2016/17, and the implication of which can be linked to the eventual outturn for the department. This is not unlike the rest of London where the average overspend was approx. £3.7m
- 8.5. The iBCF grant conditions state that the grant can be spent on three purposes:
- Meeting Adult Social Care need
  - Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready
  - Ensuring that the local social care provider market is supported.

There is no requirement to spend across all three purposes, or to spend a set proportion on each.

- 8.6. The confirmation of the iBCF funding was made after the council had set the 2017/18 budget, so this paper recommends that cabinet approve an appropriate increase to the Adult Social Care budget for 2017/18.
- 8.7 Demand and price led pressures of at least £1.8m have already been identified by the department for 2017/18. The grant will be used to fund these pressures and maintain Adult Social Care services, including increased NAIL provision, which could not otherwise be maintained, as well as investing in new services, such as those which support best practice in managing transfers of care and have long term financial benefit to the council.

## **9. The Homelessness Reduction Act and the Flexible Homelessness support grant**

- 9.1. The Homelessness Reduction Bill was passed by the House of Lords in March 2017 and received Royal assent in April 2017. The Homelessness Reduction will require earlier intervention by councils to prevent homelessness. The Act also requires councils to provide advice and help to all affected, not just those protected under existing laws.
- 9.2 The Department for Communities & Local Government also announced the arrangements for the administration of the Flexible Homelessness Support Grant (FHSG) in March 2017. The FHSG is designed to transform the way councils fund homelessness services to give them greater flexibility to prioritise the prevention of homelessness.

- 9.3. It was announced at the Autumn Statement 2015 that the Department for Work and Pensions' temporary accommodation management fee would be replaced by a Department for Communities and Local Government grant from April 2017.
- 9.4. Under the old 'Temporary Accommodation Management Fee', funding can only be used for expensive intervention when a household is already homeless, rather than on preventing this happening in the first place.
- 9.5. The FHSG is ring-fenced for two years but the government has not stated whether it will continue after 2018/19 or if it will continue to be ring-fenced.
- 9.6. No local authority will receive less annual funding under the grant than the government estimates they would have received under the Department for Work and Pensions fee. First year allocations also include an additional amount to authorities with high temporary accommodation commitments.
- 9.7. The funding has been allocated according to a formula which reflects relative homeless pressures, while at the same time aiming to protect local authorities which currently have high levels of Temporary Accommodation.

Funding that government expects would have been provided in 2017/18 under DWP TAMF £m's	2017/18 FHSG Standard Allocation £m's	One year additional 2017/18 FHSG funding for current high TAMF LA's £m's	2017/18 FHSG Total Allocation £m's	2018/19 FHSG Total Allocation £m's
6.931	6.931	1.168	8.098	7.762

- 9.8 Combined with the expected new duties on local authorities to prevent and relieve homelessness in the Homelessness Reduction Act, councils are now being encouraged to do far more to prevent people falling into homelessness and have been given this flexible funding that is designed to allow them to do so.
- 9.9. The confirmation of the FHSG funding was made after the council had set the 2017/18 budget, so this paper recommends that cabinet approve an increase to the Community Wellbeing budget by £1.168m for 2017/18 (the one year additional funding) to enable it to spend on Homelessness prevention. This budget adjustment has been included in the schedule of virements in section four of the report and set out in further detail in Appendix A.
- 9.10 The additional funding will allow the council to increase investment in a full range of homelessness services that will be needed to avoid future costs of homelessness.



## 10. 2018/19 budget and beyond

- 10.1. The budget agreed by Cabinet in February 2017, set a balanced budget for both 2017/18 and 2018/19. This included agreeing that the budget should be constructed on the basis of a council tax increase of 3.99% in each of the next three years (2017/18 to 2019/20). In addition, a range of savings proposals were agreed of £19.8m in 2017/18 and £14.1m in 2018/19 meaning that, subject to consultation and any other material changes to circumstances, no new savings proposals need to be developed to achieve a balanced budget in 2018/19.
- 10.2 If the virements proposed in Appendix A are approved, the budget proposed for 2018/19 is realistic and affordable. Whilst it will be challenging to manage within this budget the Financial Forecasts report on this agenda demonstrates that income and expenditure are on track and so that the financial position is soundly based. The increases in council tax set out will generate significant additional revenue over time, minimising the number of difficult new decisions about funding for specific services to be proposed.
- 10.3 That said, a substantial gap remains in 2019/20. The exact gap is inherently uncertain, simply because of the number of variables to be estimated and the difficulty of doing so over longer periods of time. In the current circumstances, with a lack of a clear national policy direction on many aspects of local government finance (as set out above) it is even more than usually difficult to do so.
- 10.4 In February 2017 officers' best estimate of the gap was £12.7m. This estimate will be revised and updated over the summer to take account of the factors set out below.
- **Demography.** The extent to which changing demographic trends will vary from those previously assumed, and so increase or decrease the assumed cost of providing services.
  - **Macro-economic conditions.** The effect of changes to forecast rates on inflation, interest rates and economic growth, as a longitudinal proxy measure of earnings and employment and hence a determinant of deprivation and need for services.
  - **Local (and local government) specific factors.** The cost of providing pensions will feature significantly, which in turn will be affected by discount rates, investment performance and longer-term actuarial assumptions. Furthermore, the Trade Union side has submitted a 5% pay claim for 2018/19, substantially above the 1% awarded in each of the last two years – for Brent each 1% costs around £1m.
  - **National policy.** The key issues and developments in national policy (so far as the impact on local government finance can be discussed with any reasonable certainty) have been set out in this report. On the face of it additional funding for adult social care and homelessness prevention has been allocated, but the lack of longer-term commitments to this by

government make planning at the local level difficult, and it is as yet too early to forecast accurately how service interventions and innovations funded from these will impact on the council's cost base.

- **Local policy.** Local choices to prioritise some services or policies over others is at the core of local government democracy and accountability, and the impact of possible policy initiatives will need to be factored into the planning process

- 10.5 Once the work to quantify these is complete – scheduled over the summer so far as it is reasonably possible – and once at least some more clarity emerges on the development of national policy under the new government it will be possible to bring an updated report to Cabinet on the longer-term financial position. At that stage officers will also have been able to model some of the likely financial consequences of previously agreed strategies. For example, no impact on the revenue budget has yet been formally assumed for the impact of the digital strategy, although it is known that, implemented successfully, this has the potential to reshape the cost base of some services substantially. Similarly, the outcome based reviews were successful in generating new service models but have not yet been built into the financial plans. The potential costs saved from, for example, homelessness prevention and improved integration of hospital discharge services, which were just two aspects considered by the OBRs, are substantial, and more work will be done over the coming months to see how these can be delivered in the budgeting process. The third key policy for these purposes – the investment strategy – has already generated substantial financial returns, largely through delivery of the temporary accommodation reform plan, but other actions underway (such as enhanced delivery of the NAIL programme and others) could have further significant revenue impacts by 2019/20.
- 10.6 Regardless, it is important to recognise that, on current information, there is no realistically plausible combination of circumstances that would mean that there was no financial gap to be bridged in 2019/20. This is, of course, hardly surprising, and it is worth re-emphasising that many local authorities are still trying to identify options for savings and difficult cuts to services in order to balance their 2018/19 budgets. Brent is well placed to begin the process of planning how to approach its budgeting for 2019/20, and even on a relatively pessimistic set of assumptions about the impact of the issues discussed in this report on the gap to be bridged for that year it is also worth pointing out that the gap is likely to be less than that found successfully in previous years.
- 10.7 Nonetheless, a process and timetable will need to be agreed for the 2019/20 budget round and beyond. Technically this could be deferred and approached in a traditional way with the intention of agreeing the budget in full at the February 2019 council meeting. However, there may also be advantages in commencing aspects of this process sooner, to provide greater certainty and clarity.
- 10.8 Preparatory work is underway to manage these emerging issues, with the primary focus being activities and projects other than service reductions, for example Outcome Based Reviews and the Digital Strategy. This report also



enables elected councillors to begin to form a view as to the most effective way of approaching the 2019/20 budgeting process, especially given the unusually high level of inherent risks and uncertainties.

## **11. Savings update for 18/19 onwards for the HRA**

- 11.1 The 2017/18 HRA budget was set in consideration of the significant effect the government's Housing and Planning Act (2016) and other measures will have on the Council's housing stock including on its future size, financial performance and management over coming years. The prescribed reduction in rents between 2016 and 2020 will significantly reduce rental income to fund services and the government's other reforms are likely to reduce the size of the Council's stock and further reduce income and undermine economies of scale.
- 11.2 In setting the 2017/18 budget it was estimated that the HRA would need to find savings of £3.6m by 2019/20. This has been profiled as £1.2m per year from 2017/18.
- 11.3 Following the general election, there is increasing uncertainty on the future direction of some of the Housing related policy decisions the government had made early in 2016/17. The most significant of which was High-Value Council Housing Disposal.
- 11.4 The policy would require councils to dispose of void higher value properties and, from the year of implementation, pay a levy to government calculated on the receipts it is estimated that could be raised from the market disposal of these units.
- 11.5 The implications of further the delay or even the abandonment of this policy will need to be assessed when considering what if any savings would need to be made in the short term to the HRA over and above the general efficiencies required for a HRA business plan.
- 11.6 The setting of the Council's annual general fund budget and HRA have to date been separate processes and it is planned to align these into a single process going forward.

## **12. Financial Implications**

- 12.1. The financial implications are set out throughout the report.
- 12.2 The virements in 2017/18 (set out in Appendix A) will ensure spend is contained within existing budgets, thus enhancing financial control, as part of the planning for the further savings required in 2019/20.
- 12.3 The budget agreed by Cabinet in February 2017 presented a balanced budget for the financial year 2018/19 and therefore no new budget proposals are

proposed. Therefore there are no direct costs associated with agreeing the recommendations in this report.

### **13. Legal Implications**

- 13.1** The Chief Finance Officer may agree any general fund virement to keep function and finance together or to increase the budget of a unit that is overspending by reducing that of a unit that is underspending provided this does not result in an increased overspend or to unfunded future expenditure or conflict with a prior Cabinet decision, or policy or plan adopted by the Cabinet.
- 13.2** Standing Order 24 sets out the process that applies within the council for developing budget and capital proposals for 2018/19. There is a duty to consult representatives of non-domestic ratepayers on the Council's expenditure plans before each annual budget under Section 65 of the Local Government Finance Act 1992. The council also has a general duty to consult representatives of council tax payers, service users and others under Section 3 (2) Local Government Act 1999.
- 13.3** Other Legal Implications are set out in the body of the report. Detailed advice will be provided as required in respect of the existing and anticipated legislation referred to.

### **14. Contact Officer**

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