



Full Council
21 November 2011

**Report from the Director of
Finance and Corporate Services**

Wards Affected:
ALL

**First Reading Debate on the 2012-13 to 2015-16 Budget
and Medium Term Financial Plan**

1.0 Summary

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

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

- 1.2 The record of the 'First Reading Debate' assists the Leader of the Council and the Chair of the Budget and Finance Overview and Scrutiny Committee in shaping the budget. The role of the Budget and Finance Overview and Scrutiny Committee is to assist the budget process by providing detailed input during the Executive's development of its budget proposals. This includes scrutiny of the Executive's budget proposals prior to the Executive's recommendations on the budget being agreed at its meeting on 13 February 2012, as well as further consideration after the Executive's recommendations have been made. Final decisions on the budget and the level of Council tax for 2012-13 will be made at Full Council on 27 February 2012.
- 1.3 This report has been written on the basis of the best information available to the Council at this stage. Assumptions regarding external funding for 2012-13 are based on the provisional settlement for Brent announced in December 2010. Figures for later years are based on the figures set out in the October 2010 Spending Review (SR10).
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- 1.4 The remaining three years of the spending review period will see a continued reduction in public spending generally. Budgets relating to local government were amongst the most affected both in terms of the value of reductions in funding and also the front-loaded nature of those reductions.
- 1.5 In addition, the ongoing impact of the recession and concerns about the prospects for future economic recovery mean that underlying assumptions about pay and price increases, interest rates, service pressures and other items within the Council's medium term financial strategy will need to be kept under close review.
- 1.6 This report is structured as follows:
- Section 2 Recommendations
 - Section 3 Background to the 2012-13 to 2015-16 budget
 - Section 4 General Fund revenue budget issues in 2012-13
 - Section 5 Schools Budget
 - Section 6 Housing Revenue Account
 - Section 7 The capital programme
 - Section 8 Timetable
 - Section 9 Financial implications
 - Section 10 Legal implications
 - Section 11 Diversity implications

2.0 Recommendation

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

3.0 Background to the 2012-13 to 2015-16 budget and medium term financial plan

- 3.1 The 2011-12 budget was agreed at Full Council on 28 February 2011. Key features of the budget agreed for 2011-12 were:
- A General Fund budget requirement of £267.9m;
 - No Council tax increase for Brent services leading to a Band D level of £1,058.94;
 - No overall Council tax increase, including the GLA precept, leading to a Council tax for Band D properties of £1,368.76;
 - Reserves of £9.7m for 2011-12, which was at the lower end of the range of £9.5m to £12.5m recommended by the Director of Finance and Corporate Services based on an assessment of financial risks and to enable effective medium term financial planning;
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- Financial projections for future years based on the assumptions that balances would remain within the £9.5m to £12.5m range and Council tax increases would range between 0% and 3.5%.
- 3.2 Based on budget monitoring information to the end of September 2011, the Council now has a forecast overspend of £1.8m as set out in Appendix A.
- 3.3 If no actions were to be taken to address underlying causes of the overspend, the Council would be projected to have balances at 31st March 2012 of £8.3m, which is below the target set in the 2011-12 budget. Therefore a programme of actions is underway to eliminate the forecast overspend without recourse to the use of reserves.
- 3.3 The financial forecasts included in the 2011-12 budget report have formed the background for work on the 2012-13 to 2015-16 budget carried out over the past few months.
- 3.4 The underlying assumptions in the current medium term financial strategy were set out in the budget report to the Executive in July and have been updated for the latest information. The resulting projected budget gap is set out in Table 1 below. This assumes that:
- a. A balanced budget would need to be primarily delivered through the delivery of the One Council programme.
 - b. 'inescapable growth' would be contained within a total contingency for growth of up to £5m per annum;
 - c. Council tax would not be increased for four consecutive years

Table 1: Projected Budget Gap

	Budget gap (0% Council tax each year):			
Year	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m
July Executive				
Annual	10.9	5.5	25.2	25.9
Cumulative	10.9	16.4	41.6	67.5
Latest Projections				
Annual	4.4	6.4	22.5	16.1
Cumulative	4.4	10.8	33.3	49.4

- 3.5 The gap reported above has reduced since that reported in July, principally because of reduced forecasts for growth in future years, reduced redundancy costs and factoring in increased funding from the New Homes Bonus.
- 3.6 The figures shown above are based on a 0% Council tax increase assumption on each of the next four years. Clearly when Government funding is falling
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year-on-year this exacerbates the gap and an alternative scenario based on Council tax rises from 2012-13 would be:

Table 2: Projected Budget Gap with Council Tax Increase

	Budget gap (2.5% Council tax each year from 2012-13):			
Year	2012-13	2013-14	2014-15	2015-16
	£m	£m	£m	£m
Latest Projections				
Annual	4.4	1.1	19.7	13.1
Cumulative	4.4	5.5	25.2	38.3

4.0 General Fund revenue budget issues for 2012-13

Budget gap

- 4.1 Appendix B shows that the current net budget gap between forecast expenditure and resources for 2012-13 is £4.4m after taking into account savings already being delivered in 2012-13 based on the decisions taken by the Council in February 2011.
- 4.2 Further measures that can be taken to reduce the gap are as follows:
- a. *Identifying additional savings:* As referred to above services are identifying actions as part of managing the budget for 2011-12. Where these are permanent changes this will provide ongoing benefit with full year effects to the budget position for 2012-13 and later years.
 - b. *Central items:* Details of central items in the budget are included in Appendix C. The provision made in future years is still subject to fundamental review and updated information. Increases in these items include additional borrowing costs to fund the capital programme, increased costs of concessionary fares, future increases in the carbon tax and continuing rises in the levy that the Council pays to the West London Waste Authority reflecting principally the impact of land-fill tax.
 - c. *Fees and Charges:* The budget currently assumes an increase in fees and charges of 2% for many services. Members will wish to consider some rises in specific areas.
 - d. *One Council Programme:* Given the scale and long-term nature of the funding challenge facing the Council an incremental approach to budgeting is no longer sustainable and a priority-based approach is more relevant for the future. The One Council Programme sets out a planned and rational approach to the challenge and contains the key projects which are highly complex, often cross-organisational and where there opportunities exist for high levels of savings. A number of projects have already delivered savings to support the budget and it is expected that the programme will deliver the majority of savings over the medium term and
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these will be factored into the budget to help ensure that a balanced budget is agreed.

Inescapable growth

- 4.3 The current medium term financial strategy contains a provision for inescapable growth for 2012-13. Assessments of the sums required are still being undertaken but it is clear that pressures in the following areas will have an impact in 2012-13:
- Grant reductions including those relating to housing benefit administration, social care training, unaccompanied asylum seekers,
 - Adult Social Care – increase the number of cases of young people transitioning into to adult care.
 - Environment and Neighbourhood Services – contractual price increases
 - Housing – increase in temporary accommodation costs arising from the changes in the housing benefit regime.

Council tax increase

- 4.4 As a result of the freeze in council tax for 2011-12 the Council is currently in receipt of a grant of £2.6m per annum up to and including 2014-15.
- 4.5 On 3 October 2011 the government announced a further one-off grant, for 2012-13 only, of £2.6m predicated on the basis that the council does not increase council tax for 2012-13. Each 1% in Council tax equates to approximately £1m of Council spending and members should note that the failure to increase Council tax over a number of years will erode the Council's underlying revenue position in the longer term.
- 4.6 The figures for council tax do not include the precept that will be set by the GLA. The Mayor will issue his consultation on the proposed GLA precept – which covers the Metropolitan Police, London Fire and Emergency Planning Authority, and Transport for London, as well as the GLA itself – in December 2011 and his budget proposals will then go through a process of scrutiny by the Greater London Assembly. The final precept will be decided in February 2012. At this stage, the indications are that, as in 2011-12, the Mayor will be seeking to freeze the GLA precept in 2012-13.
- 4.7 The level of council tax increase for the Council is affected by the extent to which the council tax base has changed between 2011-12 and 2012-13 and the estimated balance on the Collection Fund. The assumptions in Appendix B are that the Council tax base will increase by 1.2% and that there will be a surplus on the Collection Fund of £0.8m.

Government funding decisions

- 4.8 The Government has proposed the replacement of formula grant by a system linked to the retention of locally raised business rates from 1 April 2013.
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Based on the current proposal it is likely that the transitional arrangements will not significantly alter the funding received by councils in the first two years of the new arrangements. Therefore forecasts of funding beyond 2013 are still based on formula grant projections.

- 4.9 Within the next month the government is expected to confirm the formula grant and specific grants that the Council will receive for 2012-13. Based on previous announcements it is anticipated that the level of formula grant will reduce by £13.1m in 2012-13 and by a further £13.4m by 2014-15.

Longer term position

- 4.10 The Council reviews its spending requirements and associated resource projections, over a three or four year period. This ensures effective service development and resource usage and prevents the Council from having to make significant adjustments to its spending plans each year. It is important therefore that when members consider budget issues, account is taken of their longer term impact including the impact of interest and other revenue costs arising from capital programme decisions. This also means recognising that the use of one-off resources, such as balances or one-off grants, whilst acting as a palliative in one year of the budget cycle, can cause problems in future years.
- 4.11 The severity of the resource cuts implies that significant savings will need to be made throughout the whole spending review period in order to close the resource 'gap' identified in section 3. Given the uneven profile of the cuts in funding it is essential that budget planning addresses the medium term, rather than dealing with the year ahead in isolation.
- 4.12 Further work needs to be carried out on the potential impact of demand and other growth pressures after 2012-13, the savings that will be delivered as part of the One Council Programme and other projections through to 2015-16. This work will be reflected in an updated medium term financial strategy which will be included in the budget report to Council in February 2012.

5.0 Schools Budget

- 5.1 The Schools Budget is funded directly from a Dedicated Schools Grant (DSG) which is ring-fenced and does not appear as part of the Council's overall budget requirement. The result is that, for 2011-12, £236.5m of the Council's spending through the schools budget is treated separately from spending on other General Fund services. Schools are also allowed to build reasonable levels of reserves which are also ring-fenced.
- 5.2 The government announced in the last Spending Review that schools spending was a priority area and, although overall Department for Education (DfE) funding fell by almost 11%, allocations of DSG to local authorities were unchanged on a per pupil basis for 2011-12. Key policy objectives included the pupil premium, academies and free schools. The government has
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launched a further consultation regarding all areas of school funding. Until the outcome of this is announced the level of DSG for Brent for 2012-13 onwards is uncertain. Key policy areas include:

- **Distribution of the £2.5bn Pupil Premium:** this new specific grant is targeted on pupils from deprived backgrounds. Each pupil known to be eligible for free school meals attracts £488 of funding which goes to all schools including academies via the local authority. Local authorities also receive pupil premium funding of £488 for looked after children in 2011-12. A premium will also be paid for children whose parents are currently in the armed forces as recorded on the January 2011 School Census. For 2011-12 this has been set at £200 per eligible pupil. The overall pupil premium allocation for Brent was £5.258m in 2011-12. Recently the Government announced that the total national funding available for the Pupil Premium is set to double next year and will rise to £1.25bn in 2012-13 and rise again in 2014/15 to £2.5bn. Information is still awaited on the distribution of resources in 2012-13.
 - **Academy Funding:** the Government undertook a further review of the method of calculating the level of funding transferred from a local authority to a newly formed academy school. There is a potential for a local authority to lose significant amounts of its central education budget for each school that transfers to academy status. Previous guidance provided by the DfE suggested that the amount transferred could be up to £900k per secondary school. In 2011/12 a general top-slice from a local authorities funding settlement was applied to fund these transfers to academies. The consultation carried out sought responses on whether another general top-slice should be undertaken or a transfer from each local authority is undertaken based on the specific schools in that area that become Academies. Until the outcome of this consultation is known it is difficult to assess the impact on individual local authorities.
 - **Consultation on School Funding Reform:** The Government announced its intention to radically reform education funding potentially from 2013-14 onwards and launched a major consultation. The consultation covered proposals relating to:
 - The national funding system and the government method for allocating funding to individual local authorities
 - The Schools Block System
 - The Schools Block Formula Content
 - Central local authority services and defining responsibilities
 - Future arrangements for funding academies
 - Children and young people with special educational needs
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- Early years
- Pupil premium
- Timing for implementation of reforms

The results of the consultation are due in late autumn 2011. One previous proposal to move to a national funding formula for schools that would have eliminated the current arrangements whereby local authorities run their own funding formulae was dropped as part of the consultation.

- 5.3 The council is required to consult the Schools Forum, which consists of representatives of the different schools sectors and includes head-teachers and governors, on the setting of the Schools Budget. The Schools Forum will be considering this at its meetings in December through to February. There is a requirement that the year on year increase in the central element of the Schools Budget (which includes Special Education Needs) cannot be greater in percentage terms than the increase in funding delegated to schools, unless the agreed by the Forum. A key issue that will need to be addressed is the current forecast cumulative deficit on the Schools Budget of £7.2m as at 31 March 2012. This has arisen from continued increases in expenditure on pupils with Special Educational Needs. A full recovery plan has been approved by the Schools Forum and is in place to deliver savings in this area of expenditure and use part of the overall DSG to eliminate this deficit by 2014/15.
- 5.4 Final decisions on the allocation of the Schools Budget will be taken by the Executive in February 2012.

6.0 Housing Revenue Account

- 6.1 The Housing Revenue Account (HRA) covers the activities of the Council as landlord for approximately 9,000 freehold dwellings and 200 leasehold dwellings. The HRA is separate from the General Fund and is ring-fenced – i.e. HRA expenditure is met from HRA resources, which primarily consist of government subsidy (HRA Subsidy) and rents and not from Council tax or other General Fund resources
- 6.2 From April 2012 the HRA subsidy system will no longer be in place and from that date the HRA will be self-financing. In return the Council will receive a one-off settlement in lieu of the ongoing subsidy. The settlement figure will be confirmed in January 2012 but will be approximately £185 million, compared to the subsidy received of £8.5 million.
- 6.3 The rent increase for Council dwellings takes account of the government's guidelines on convergence between rents charged by Councils and Registered Social Landlords (mainly housing associations). In 2011-12, this resulted in an average rent increase of 6.1%. The government guidelines for rent increases in 2012/13 are awaited but based on the September inflation
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figure it is anticipated that this would imply a rent increase of more than 7% for that year.

- 6.4 The HRA forecast outturn for 2011-12 is in line with the original budget.
- 6.5 In February 2012 the Executive will decide on the rent increase to be applied in 2012-13. The HRA budget will be agreed by Full Council in on 27 February 2012 as part of its consideration of the overall Council budget report.

7.0 Capital Programme

- 7.1 The capital programme is a four year rolling programme which is up-dated each year. The current 2011-12 to 2014-15 capital programme was agreed as part of the overall 2011-12 budget process in February 2011 and has been up-dated to reflect changes subsequently reported to the Executive. This includes accounting for slippage of previous years' spending into 2011-12.
- 7.2 The capital programme for 2011-12 to 2014-15 reflects the priorities of the Borough Plan, asset management plans and any amendments required arising from the new departmental structures. The capital programme will also be extended to include the 2015-6 financial year.
- 7.3 The key challenges for the development of the capital programme are:

To revisit the estimated sources of funding, taking into account:

The recent announcement on basic needs funding for school places, and

the continuing impact of the economic downturn on other contributions such as reduced levels of developer contributions arising from a slowing of major development projects.

The ongoing need to provide additional school places across the borough and address other school capital needs

In the light of the above to ensure that the up-dated capital programme delivers the Council's key priorities within the resources available.

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

Such a strategy does increase borrowing costs each year at a time when revenue resources are falling leading to interest costs taking up an increasing share of total revenue resources. Members could decide to reduce that borrowing as a way of helping bridge the budget gap in 2012-13 and beyond through the reduction of borrowing costs as referred to in paragraph. Achieving this would mean either reductions in the capital programme or the

identification of alternative funding sources other than borrowing from those already identified.

7.4.1 Borrowing levels currently included in the capital programme are as follows:

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
Unsupported Borrowing	22,322	5,541	5,526	3,730
Unsupported Borrowing – Self Funded	53,172	36,652	17,616	200
Total Borrowing	75,494	42,193	23,142	3,930

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

In order to consider the potential to reduce the levels of borrowing incurred to fund the capital programme it will be necessary to first define the level of grant that will be made available via the local government settlement, the extent of other funding sources and contributions available and those schemes where there is a continuing commitment to fund or a statutory requirement to make provision. Members will then be able to consider the level of any funding gap arising, the total level of borrowing affordable to the General Fund revenue budget and the prioritisation of schemes within the existing 4 year capital programme and how that should roll into 2015-16.

8.0 Timetable

8.1 The timetable for finalising the 2012-13 budget is attached as Appendix D. The key dates are:

- release of the Mayor's consultation on the GLA budget in mid-December 2011;
- administration's draft proposals issued early February 2012;
- GLA budget agreed in mid-February 2011;
- Executive decides recommendations to Full Council on budget at meeting on 13 February 2012;
- Full Council decides budget on 27 February 2012.

8.2 The Budget and Finance Overview and Scrutiny Committee will be scrutinising the budget at various stages of this process: prior to the administration's draft proposals being issued; after the proposals have been issued, with their discussions feeding into Executive consideration of the budget proposals on 13 February; and following the decisions of the Executive on 13 February, feeding into the Council budget debate. Last year

the Overview and Scrutiny Committee invited a range of members to its meeting preceding the Executive's consideration of the budget proposals and the intention will be to follow the same approach this year.

- 8.3 Party Groups are also encouraged to invite the Director of Finance and Corporate Services to brief their members in advance of the budget decision making process.

9.0 Financial Implications

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

10.0 Legal Implications

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

11.0 Diversity Implications

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

12.0 Background Papers

Budget Report – Full Council 28 February 2011
Budget Strategy 2012-13 - 2015-16 – Executive 18 July 2011

13.0 Contact Officers

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