Brent	**Cabinet** 16 July 2018
	Report from the Chief Finance Officer

July Finance Review

Wards Affected:	ALL
Key or Non-Key Decision:	KEY
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	None
Background Papers:	None
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1.0 Purpose of the Report

1.1. This report is for information. It sets out the overall financial position facing the Council for the next four years and highlights the significant risks, issues and uncertainties. It also sets out the proposed budget setting process for, at least, the years 2019/20 and 2020/21, in order to maximise the period of consultation with residents, businesses and other key stakeholders.

1.2. On the recommendations of this report the draft budget would be published for consultation in October 2018. Based on what is currently known, or can reasonably be assumed, about future funding settlements further substantial reductions in expenditure will be required. The Council will need to take difficult decisions about which services to prioritise and protect and which to reduce in order to continue to deliver affordable and sustainable budgets.

1.3. This report also sets out the overall budget gap, the proposed budget setting process for 2019/20 – 2020/21, including the publication of draft proposals, and the proposed approach to consultation with residents, businesses and other key stakeholders. The report also updates on the budget outlook for Schools and the Housing Revenue Account.

2.0 Recommendation(s)

2.1 That Cabinet agrees the budget setting process for 2019/20 – 2020/21, including the approach to consultation and scrutiny as set out in section nine.

2.2 That Cabinet note the Government's commitment to proceed with a Fair Funding Review, a reset of the Business Rates Baseline and a move to 75% Business Rates Retention, all to be implemented by April 2020, and the likely consequences of this for Brent's future funding.

2.3 That Cabinet note that on current funding assumptions savings of at least £30.3m will be required in order to agree balanced budgets for 2019/20 and 2020/21, of which £29m will relate to general fund services and £1.3m to the Housing Revenue Account.

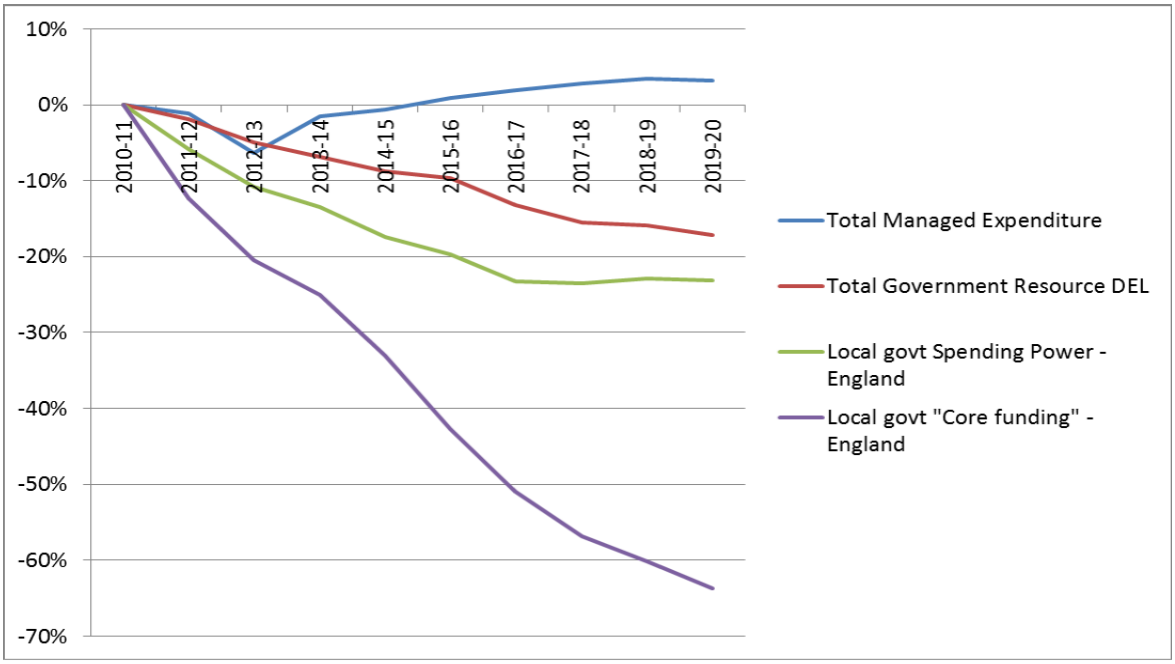
2.4 That Cabinet note the Capital budgets and agree the proposed 2017/18 capital budget carry forwards and capital virements set out in section seven.

2.5 To agree to allocate £1m to begin the process of developing and consulting upon options to invest in the borough's more dilapidated physical infrastructure, to be financed from the Investment Strategy reserve.

3.0 Strategic Overview

3.1 Local government has experienced a disproportionate level of austerity when compared with other parts of the public sector. Chart 1 below compares the like-for-like cumulative change in core funding with total public and departmental spending over the decade to 2019-20. Core funding from central government will have fallen by 63% in real terms, local government revenue "spending power" (as defined by government) will have fallen by 23%, while overall public spending will have increased marginally over the same period.

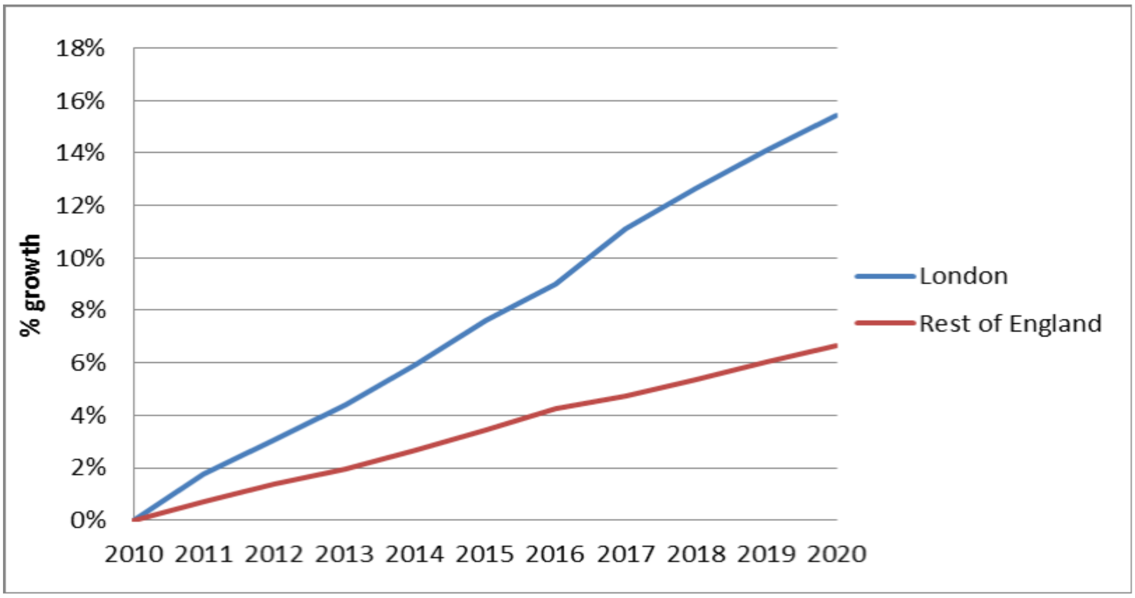
Chart 1 - Cumulative like-for-like change in public spending - 2010-11 to 2019-20



Source: HMT (Budgets/Autumn Statements since 2011); DCLG (LGF Settlements 2011-12 to 2018-19)

3.2 At the same time, local government continues to experience growth in demand for services, driven by significant demographic change. Between 2010 and 2020 London's population will have risen by over 15%, more than double the rate of growth across the rest of England (7%). As population is fixed within the current funding distribution, this growth has compounded the effect of sustained funding reductions.

Chart 2 – Population growth 2010 to 2020 London vs England



Source: ONS, Mid-Year Estimates (to 2016) and Sub-National Population Projections (from 2016 onwards)

3.3 This disproportionate growth is set to continue, with London's population forecast to increase by 21% (to over 11 million) between now and 2039, compared with just 11% across the rest of England. These disproportionate increases are forecast across all of the major age cohorts: the child population, working age adults and those over 65.

3.4 The last spending review in 2015 was followed by a four year settlement for Councils between 2016/17 to 2019/20, which provided a degree of certainty over core funding from central government. However, as the final year of the settlement offer approaches, local government is undergoing a period of significant change that brings with it growing uncertainty. The next 18 months will see three major sector specific events that will change the amount of funding every local authority will receive from 2020, and of course in this period the UK is scheduled to leave the EU, under terms that are still not clear and it is consequently difficult to assess the impact of this on the sector.

1. The Spending Review. This is currently expected in spring 2019 and will set the overall quantum of central government funding to local government. The time period covered is unknown but is expected to be up to three years.

2. The Fair Funding Review. This will determine the new funding baselines for the start of the 75% business rates retention scheme from April 2020 and therefore determine the distribution of core central government funding to local government.

3. 75% business rates retention. This will involve, from April 2020, establishing new business rates baselines, setting new parameters regarding the level of risk/reward and therefore, the ability of each local authority to benefit from locally generated growth.

3.5 In addition to the above, less than a month before publication of this report, the government announced substantial increases to NHS funding, as well as a 10-year plan for the NHS to be integrated with social care. The impact of this announcement is that publication of a much anticipated green paper on social care funding has been delayed until the autumn so that both plans can be published together. The implications of this for adult social care funding are at this point unclear and so no account of this has been taken in this report. Adult social care represents nearly a third of Brent's net budget, therefore the implications of these plans could have a significant impact on our medium term funding outlook.

3.6 Northamptonshire County Council's extreme predicament has naturally generated headlines, alongside speculation over which council might be next. Some commentators argue that Northamptonshire is unlikely to be an isolated case as the whole sector faces pressure owing to funding reductions and increasing service demands. The National Audit Office recently completed a major study into local authority financial sustainability. It found that MHCLG did not have a clear vision for local government funding and that short term funding changes in recent years, most notably within adult social care, were not sustainable over the long term:

““The current trajectory for local government is towards a narrow core offer increasingly centered on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources”.

3.7 Brent has managed its finances well by adopting a forward-looking financial strategy based on taking difficult decisions early, allowing time for implementation, and has led to total savings of £164 million being delivered since 2010.

3.8 In this context, many local authorities are drawing down their reserves to help balance budgets, however this is a short-term fix. The NAO noted that 10.6% of local authorities with social care responsibilities would have the equivalent of less than three years’ worth of reserves left if they continued to use their reserves at the rate they did in 2016/17. It is important to remember that reserves are one-off, i.e. they can only be spent once, while service demands will continue year on year. They should continue to be maintained at sensible and prudent levels to allow the Council to act more flexibly as circumstances require

4.0 The Spending and Fair Funding Reviews

4.1 The Spending Review (currently expected in spring 2019) will set the overall quantum of central government funding to local government and the Fair Funding Review will create a new formula to distribute this funding (from April 2020) by establishing new funding baselines at the start of the 75% retention scheme. The current funding formula determines how £17 billion of funding is distributed across English local government in 2018/19. London Boroughs currently receive around £3 billion of this funding.

4.2 The Review is split into three work streams:

1. Assessment of relative needs;
2. How to take account of locally raised resources; and
3. How to transition to the new funding baselines.

4.3 The Government’s overall timetable, working toward publication of final baselines in the 2020/21 Local Government Finance Settlement, is expected to be as set out below.

Date	**Milestone**
Spring/Summer 2018	MHCLG issues series of technical papers on relative need, resources and transition
Summer 2018	Finalise overall structure and leading options for needs and resources assessments
Autumn 2018	Possible further consultation on relative needs

March-October 2019	Finalise options for needs and resources
Summer 2019	Conclusion of detailed research project into Children's Services
Summer 2019	Indices of Deprivation data sets updated
December 2019	Publish provisional baselines in provisional 2020/21 Local Government Finance Settlement
April 2020	75% retention scheme begins and with new funding baselines

4.4 At this stage it is still unclear what the Government's approach to relative need and relative resources will be. Equally as important are the transitional arrangements as local authorities will only see their proposed new funding baselines for the first time in December 2019 as part of the provisional 2020/21 local government finance settlement, just four months before they are due to be implemented. The uncertainty over funding allocations makes medium term financial planning particularly challenging and is further compounded by early indications that the review will not be favourable to London. Further consultation and technical papers planned over the course of 2018 and further updates will be presented to Cabinet when the position become clearer.

5.0 Business Rates Retention

The 75% retention scheme

5.1 While the Spending Review will set the overall control total for local government funding, the overall quantum of business rates to be redistributed within the business rates retention scheme will be the level of business rate the government expects local government to collect in 2020/21. Of this, 75% will be redistributed within the retention scheme (via baselines set by the Fair Funding Review), and the remaining 25% will be returned to local government as other grants. In the longer term, the Government has stated it is committed to a long term goal of 100% retention of business rates by the sector, but this requires primary legislation which is unlikely within this parliament.

London 100% Business Rates Retention pilot pool

5.2 The pilot pool has operated for only around three months at the date of drafting this report. The latest forecast from London Councils is that the total additional benefit (for London) of the pool is likely to be of the order of £349m in 2018/19, of which £7m would accrue to Brent. The first actual data to confirm, or otherwise, these projections is likely to come in late 2018, through the technical NNDR2 return, which sets out data on business rates due and collected.

5.3 Provided this return broadly supports the earlier London Councils forecasts it would then be reasonable to start making provisional allocations of the resources available. As the pilot is limited to one year (although it may be extended for a second year) any allocations could not be to cover ongoing expenditure, but one-off projects and/or capital expenditure would be reasonable. The intention is that proposals would be put forward as part of the proposed draft budget in October 2018, and provided that the Council is at that stage able to present a potentially balanced budget for 2019/20 then the business rates income could be used to finance a wide-range of other spending initiatives.

5.4 The government will undergo an evaluation of existing pools in the summer that will feed into its future decisions about extending pilots for 2019/20.

6.0 The Council's current year revenue budget and forecasts

6.1 At this point in time, with the exception of the pressure against the Housing Association Leasing Scheme (HALS) budgets, the Council is on track to spend within its budget as set out in the table below. This is not without risk, but to date identified risks can be addressed by offsetting against underspends, and use of contingencies within the budget. This demonstrates that the budget set for 2018/19 is appropriate, and shows the strong financial management within the council.

Department	**Budget**	**Forecast spend**	**Variance**
	£m	**£m**	**£m**
Children & Young People	40.4	40.5	0.1
Community Wellbeing	121.6	122.1	0.5
Performance, Policy & Partnerships	9.6	9.6	0
Regeneration & Environment	30.1	30.1	0
Resources	30.5	30.5	0
Subtotal Service Area Budgets	**232.2**	**232.8**	**0.6**
Other Expenditure	33.7	33.7	0
Subtotal Net expenditure	**265.9**	**266.5**	**0.6**
Business Rates, Council Tax and Specific Grants	(265.9)	(265.9)	0
Total General Fund	**0**	**0.1**	**0.6**
DSG funded activity	0	0	0
HRA funded activity	2.5	2.5	0
Overall position	**2.5**	**2.5**	**0**

6.2 Further details are set out in the Financial Forecast Q1 report on the same agenda.

7.0 The Council's current year capital budget

7.1 In 2017/18 the capital programme achieved a total spend of £181.2m (2016/17 £101m). This ramping up of activity represents a greater focus on delivery and this trend is expected to continue into 2018/19 and beyond as the capital pipeline proposals are developed into firm schemes. See Table 1.

Table 1

Portfolio/Programme	Budget	Outturn	under / (overspend)
	£m	£m	£m
Corporate Landlord	3.0	3.2	(0.2)
Regeneration	8.1	7.7	0.4
South Kilburn	10.9	15.4	(4.5)
Public Realm	15.7	12.3	3.4
Schools	32.9	29.2	3.7
Housing	139.2	113.5	25.7
Total	**209.8**	**181.3**	**28.5**

7.2 The Capital Programme as a whole has a 2018/19 budget of £249.8m, £221.2m of which was approved at full Council in March (See Table 2). The largest budget is Housing which includes allocations for property acquisitions and private rented sector initiatives as well as several NAIL schemes.

7.3 The 2018/19 forecast outturn is currently £196.4m or 79%, which is £53.4m less than the current budget. However it is worth noting that at the end of 2017/18 £28.5m of the capital budget was required to be brought forward (relating to programme slippage and adjustments against the pipeline allocation). It is therefore proposed that this sum is re-profiled into 2018/19 and later in some cases, except for those schemes that reached completion in 2017/18.

7.4 The position is summarised in the table below and further details on the 2018/19 forecast position is contained within the Financial Forecast report also on the agenda. Tables 2 and 3 show the impact of the proposed 2017/18 carry forwards as well as the following capital budget virements;

- £0.9m Energy Centre - Corporate Landlord to Regeneration

Board

- £0.4m S Kilburn accelerated works/acquisition programme – Pipeline to South Kilburn
- £0.9m S106 contribution for schools provision in Ealing – Pipeline to Regeneration
- £18.9m Acquisition and development of 136 Honeypot Lane – Pipeline to Housing

Table 2

2018/19 £m	Budget	B/Fwd	Virement	Other	Revised Budget	Forecast outturn	Variance
Corporate Landlord	8.0	(0.2)	(0.9)	0.0	**6.8**	6.8	0.0
Regeneration	8.4	1.3	0.0	0.0	**9.6**	9.4	0.2
South Kilburn	12.5	0.0	0.9	0.0	**13.5**	14.8	(1.3)
Public Realm	16.1	3.4	0.0	0.0	**19.5**	17.2	2.3
Schools	20.6	3.8	0.0	0.0	**24.4**	24.5	(0.1)
Housing	105.6	32.3	5.0	0.0	**143.0**	90.6	52.4
Pipeline	50.0	0.0	(5.0)	(11.9)	**33.1**	33.1	(0.0)
Grand Total	**221.2**	**40.5**	**0.0**	**(11.9)**	**249.8**	**196.4**	**53.4**

Pipeline

7.5 The programme agreed by Council in March when setting the budget included £400m for pipeline schemes. See Table 3 - (£50m in 2018/19, £175m in 2019/20 and £175m 2020/21). The thinking behind this was to get a better scale of the Council's capital commitments which would then inform the Council's borrowing strategy and be used for the financing calculations to ensure that capital expenditure and borrowing requirements are properly aligned.

7.6 In evaluating the investment pipeline the ability of proposals to generate revenue savings and, to a slightly lesser extent, their potential to generate future capital receipts or other financial returns will be significant factors in the decision making process.

7.7 It is expected that the proposals, once they have been refined will be presented to Cabinet as part of the draft budget in October 2018. Following this, subject to consultation and the political decision making process, formal agreement will be at the budget setting meeting in February 2019.

7.8 Although the process explained above is the preferred route for determining the makeup of the future programme, this does not prevent more urgent approvals being granted on an individual basis before then (subject to Cabinet or other approval and a robust business case). To date £16.9m has been drawn down from the pipeline allocation as follows:

Table 3

Capital Pipeline Movements £m	Decision	2018/19	2019/20	2020/21	Total
3 Year capital budget pipeline	**Council Feb-18**	**50.0**	**175.0**	**175.0**	**400.0**
Acquisition of 136 Honeypot Lane	Cabinet Dec-17	(11.6)	(5.0)	(2.2)	**(18.8)**
South Kilburn accelerated works	Cabinet Nov-17	(4.4)	0.0	0.0	**(4.4)**
School Provision In Ealing - S106	Delegated	(0.9)	0.0	0.0	**(0.9)**
Revised Pipeline Balance		**33.1**	**170.0**	**172.8**	**375.9**

7.9 In addition to the pipeline movements, the scheme listed below is scheduled to be presented to Cabinet before October 2018, as for a number of reasons it is unable to progress in accordance with the timeframes envisaged above. If agreed it will be added to the overall programme.

- Allocation from the Investment Strategy Reserve

  The award of initial funding for £1m for preparatory and investigative work to subsequently allow an informed decision to be taken by Cabinet regarding investment in deprived areas

8.0 Future Revenue Funding Position

8.1 As reported to Cabinet in February 2018, officers' best estimate of the budget gap was £30m between 2019/20 and 2020/21. Nonetheless, 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. This is further compounded by the significant changes to local government funding proposed from 2020/21. The accuracy of this is probably at best +/- 20%, and wider variations are entirely plausible. The actual figure required will not be known for at least a year, once the local government finance reforms are further forward.

8.2 With that said, further analysis on business rates suggests that retained income has been steadily increasing by approximately 2% per annum, which is equivalent to an additional £3m between 2019/20 and 2020/21. This income would have been expected even if we had not participated in the London pilot pool and therefore it is appropriate to build in to the base budget.

8.3 As set out on the forecast report on this agenda there is a significant overspend against the HALS budget which will recur into 2019/20 and beyond. On current information this is expected to add £2m to the funding pressure in 2019/20, and hence to the budget gap.

8.4 With regards to Council Tax, an increase of 4% per annum has been assumed, which is in line with recent government policy, and is made up of 2% for general council funding and 2% for Adult Social Care. Council Tax in 2018/19 increased by 5% following the government's recognition of higher than expected inflation but the policy from 2019/20 is currently unknown. The adult social care precept does not exist after 2019/20, but it is expected that the legislation will be extended, and it is also unknown if a referendum limit will be imposed.

8.5 Taking account of these changes and updates to the planning assumptions the revised budget gap is now estimated at £29m. As set out above, until the Spending Review is published and until the direction of the Fair Funding review is clearer this estimate will be subject to considerable change or at least uncertainty.

8.6 It is worth noting that CIPFA's annual council tax survey revealed that households across England are set to see the highest council tax increase for fourteen years in 2018/19. Most English police forces are also opting for an increase in average Band D at or near the maximum allowed of £12, reflecting current pressures on police funding. The rise in council tax across the country repeats the trend seen over recent years and it also reflects the financial strains that many local authorities are facing. It is expected that the government's policy on future increases to Council Tax post April 2020 (and whether the ASC precept will continue in its current form) will be addressed as part of the Fair Funding Review.

8.7 Critical to understanding the overall budget gap are the annual growth assumptions that are built in to the budget modelling process. These are set out in the table below and the amounts can be regarded as reliable.

Assumption	**Extra cost per annum (£m)**	**Description**
Demography	3.5	Adult Social Care (£2m), Housing (£0.5m), Children's Social Care (£0.4m), Public Realm (£0.4m), Other (£0.2m)
Payroll	2.1	Based on 2% pay award and new pay spines
London Living Wage	1.0	Assumed average annual cost of making more contracts LLW compliant
Contracts	5.9	Primarily based on 2% inflation or known contractual commitments
Transport	1.5	Freedom passes and transporting children with Special Educational Needs
Technical	1.0	Pensions, levies (e.g. WLWA) and other technical items

Contingency	1.0	Need to have some insurance against non-delivery of savings
Capital financing	2.0	Interest and debt repayment costs for capital programme
Total Growth	**18.0**	

9.0 Proposed budget setting process 2019/20 – 2020/21

9.1 The 2019/20 budget proposals will need to be consulted upon by autumn 2018, leading in to a February 2019 budget setting meeting at Full Council. Therefore the proposed budget setting process following this Cabinet meeting is as follows:

- Cabinet 15 October 2018. This report will present the draft budget proposals to be formally consulted on to set the 2019/20 budget, including the business plans to set the 2020/21 budget;
- The proposals, together with any changes made by Cabinet, will form the basis of consultation between November 2018 and January 2019 with local residents, businesses and other key stakeholders;
- The three Scrutiny Committees will review the budget proposals and report accordingly;
- The General purposes committee will review the calculation of the Council Tax base in December 2018.
- After consultation, a budget paper will be presented for Cabinet to recommend a final budget and council tax to the February 2019 Council meeting.

Consultation

9.2 The council recognises consultation as a key part of policy formulation, and makes considerable effort to ensure that the views of residents, businesses and other key stakeholders are taken into account. Any views or suggestions from key stakeholders on how the consultation process should work are welcome and should be sent to the Chief Finance Officer by 31 August 2018. That said, there are other well established forms of consultation that are proposed to be undertaken:

- A presentation at each of the five Brent Connects meetings, delivered by the Leader and supported by officers, followed by a question and answer session. Brent Connects is a well-established public consultation forum for local residents, businesses and other stakeholders with meetings spread across the borough.

- Online consultation. It is proposed to publish the detailed budget proposals on Brent's website, inviting comments and other feedback via the well-established consultation portal. Paper versions will be available on request.

- Consultation with local businesses. There are a number of business forums and associations that the Council regularly engages with that include a wide range of both small and large local businesses. These include the West London Business (a non-profit business leadership forum), the Federation of Small Businesses, the Town Centre Business Association and the Business Board.

- The local voluntary sector is closely engaged with Brent's communities and has considerable experience of the impact of the council's difficult choices against a background of funding reductions. Their role as part of the consultation process will also be crucial.

9.3 Legally, the results of consultation are something that Members must have due regard to but are not the single or even most significant determining factor in making budget decisions.

Equalities Impact assessments

9.4 The Council has a duty to pay due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between different protected groups when making decisions. Each of the budget proposals that will be put forward for consultation will be subject to equality impact assessments (EIA), as in previous years, to assess their potential or likely impact on service users and employees with protected characteristics. Where the EIA process identifies a disproportionate negative impact with no reasonable mitigation, the proposals will be subject to a full EIA.

10.0 Schools Funding Reforms

10.1 A National Fair Funding Formula for schools was announced in 2017, with 2018/19 and 2019/20 being transitional years where the council, in consultation with the schools forum, retain responsibility for a local schools funding formula albeit restrained to a national framework. Beyond this the government's intention is for mainstream schools to be directly funded by the Department for Education, although it is noted that this will require additional primary legislation to be passed by parliament. In general terms the reforms reallocate resources away from urban centres such as London, and the published models showed that most Brent schools would lose funding in cash terms under the proposed national formula. However in the summer of 2017 a limited amount of additional DSG funding was announced for all local authorities and funding will increase by a cumulative 1% by 2019/20, or 0.5% each year.

10.2 The financial pressures that schools are under mean that this increase represents a real terms funding reduction. Staffing costs have risen due to minimum wage increases, national insurance changes, pension contributions and auto enrolment, and now anticipated pay rise settlements, with support staff already being awarded 2% for 2018/19. The teachers' pay award has not been announced yet, but the main teaching unions are campaigning for a 5% increase. In addition, there is also the more general inflationary cost pressures on good and services.

10.3 School balances are falling as a result of the ongoing financial pressures, reducing from £18.6m to £16.5m in 2017/18, on a like for like basis, and six schools finished 2017/18 in deficit.

10.4 To mitigate these financial pressures, the forum recommended and the council allocated £2.5m of the £7m of DSG reserves through the local funding formula for 2018/19. To sustain the same level of funding in 2019/20 it is estimated that an additional £1.5m of DSG reserves would need to be allocated. A further 2m of reserves has been allocated to support Early Years and High Needs (SEN) provision, as these blocks of the DSG have also not received real terms funding increases. The High Needs Block overspent in 2017/18.

10.5 This leaves schools in a position of uncertainty when planning for 2020 and beyond. Funding from reserves is not sustainable beyond the short term and this option may not be possible if a hard national funding formula is introduced from April 2020. Schools are carefully planning their 3 year budgets and are starting to restructure staffing establishments where necessary. They will need to look for commercial and income generating opportunities, and for opportunities to work together on procurement.

10.6 Pupil numbers will need to be monitored closely. The population bulge has now reached the Secondary phase, and some secondary schools are now expanding to accommodate more children. In general, larger schools are better placed to accommodate financial pressures and realise economies of scale. Only 2 Secondary Schools remain with the Council, with the rest being Academies.

10.7 However some primary schools now have falling numbers of pupils in their reception and key stage 1 year groups, and this directly reduces the funding allocated to them. These schools will need to react when planning their budgets and restructure their teaching capacity to match their income and numbers of pupils present. There is a financial risk that smaller schools with reducing numbers of pupils will result in more schools being in deficit by the end of 2018/19.

10.8 The expenditure from the High Needs Block is largely demand led, and the number of children requiring support in both mainstream schools and special provisions is increasing. The national SEND reforms introduced Education Health Care Plans (EHCPs) for children with SEND, with statements converted to EHCPs by 2018. In May 2018 there were 2,115 EHCPs, which compares to 1,655 special needs statements in May 2015. The Council has successfully expanded in-borough high needs provision, which is generally lower cost than out of borough, but the increased demand means the Council is now starting to see the overspends that other London Boroughs have been reporting in recent years.

11.0 Housing Revenue Account

11.1 The 2018/19 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.

11.2 The prescribed 1% reduction in rents between 2016 and 2020 as set out in the Welfare Reform and Work Act 2016 will significantly reduce rental income to fund services. In October 2017 the government announced a return to CPI plus 1% for 5 years starting in April 2020. This will provide stability and certainty over planned investment in the stock, service improvement and new development, at least in the medium term. The approach beyond 2025 remains uncertain but there is an expectation that rent increases will remain.

11.3 The Council's ALMO Brent Housing Partnership (BHP) was brought back in-house in October 2017. The review to decide whether to bring housing management back into the council identified the need to achieve £3.6m savings between 2017/18 to 2019/20. £1.3m of this saving is profiled to be achieved in 2019/20 through the full impact of the transformation programme which is currently being implemented in this financial year.

12.0 Overall summary and conclusion

12.1 Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity as well as disproportionate growth in demand for services. There is a growing level of uncertainty as the cliff edge of 2020 approaches – marking the end of the current Spending Review period and start of the new 75% business rates retention scheme.

12.2 The government plans to implement all three reform strands – Fair Funding, a redesigned business rates retention system at 75% and reset of the business rates baseline – by April 2020. This will require a significant volume of technical developments, formal consultation and detailed modelling. Each of the reforms could individually have a potentially significant financial implication for local authorities which could include:

- An increase or decrease in the size of baseline need set for an authority;
- A change in the current percentage share of local business rates income after 2020/21 compared to the current structure;
- A change in the levels of financial reward or loss arising from shares of business rates;
- An increase of decrease in the size of the business rates baseline which would affect the levels of gain or loss at 75%.

12.3 What transitional arrangements are put in place and whether these arrangements relate to just one or more of the reforms will also have a significant impact upon the financial impact for an authority and the size of any cliff edge that may arise. It is anticipated that MHCLG will formally consult on the proposals, although the timing for such formal consultation is unclear at this stage.

12.4 At the national level the debate over Brexit is likely to dominate political proceedings. Whilst there is much 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 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. 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.

12.5 Since 2010 the council has delivered against a series of challenging financial targets (£164 million of savings delivered since 2010 or around £18m per annum), through a combination of effective financial management, cost control and more innovative approaches to investment and demand management. This is further endorsed in the Financial Forecasts report on this agenda that demonstrates income and expenditure are on track and so that the financial position is soundly based.

12.6 That said, a substantial gap remains between 2019/20 and 2020/21 of around £30m. These estimates will be revised and updated over the summer to take account of, where possible, the national policy direction on local government finance and other local specific factors with a view to reporting back to Cabinet on the longer term financial position.

12.7 At that stage officers will also have been able to model some of the likely financial implications of previously agreed strategies. For example, no impact 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 budgeting process. Finally, 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.

12.8 Preparatory work is underway to manage these emerging issues, with the primary focus being on activities and projects other than service reductions, for example Outcome Based Reviews and the Digital Strategy.

13.0 Financial Implications

13.1 The financial implications are set out throughout the report.

14.0 Legal Implications

14.1 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.

15.0 Equality Implications

15.1 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 unlawful discrimination, advance equality of opportunity and foster good relations between different protected groups when making decisions. The groups protected by law, also known as protected characteristics, are age, disability, gender, race, religion or belief, pregnancy and maternity, marriage and civil partnership, sexual orientation and gender reassignment. Although socio-economic status (people on low income, young and adult carers, people living in deprived areas, groups suffering multiple disadvantage, etc.) is not a characteristic protected by the Equality Act 2010, Brent Council is committed to considering the impact on socio-economic groups.

15.2 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 considers the diverse needs of all our local communities and workforce. Consideration of the duty should precede and inform decision making. It is important that decision makers have regard to the statutory grounds in the light of all available material, including relevant equality analyses and consultation findings. If there are significant negative equality impacts arising from a specific proposal, then decision makers may decide to amend, defer for further consideration or reject a proposal after balancing all of the information available to them.

16.0 Consultation with Ward Members and Stakeholders

16.1 Section 9 of this report provides more details of the statutory consultation process with regards to the proposed budget setting process.

17.0 Human Resources

17.1 Not applicable.

Report sign off:

Conrad Hall
Chief Finance Officer
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