

	Resources & Public Realm Scrutiny Committee 17 July 2024
	Report from the Corporate Director of Finance & Resources
	Cllr Mili Patel
Budget update – Medium Term Financial Strategy	

Wards Affected:	All
Key or Non-Key Decision:	Not Applicable
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
List of Appendices:	Three Appendix 1: Financial Outturn 2023/24 Appendix 2: Quarter 1 Financial Forecast 2024/25 Appendix 2a: Appendix A – Q1 Savings Delivery Tracker Appendix 2b: Appendix B – Prudential Indicators Appendix 3: Medium Term Financial Outlook Appendix 3a: Appendix A – Productivity Plans
Background Papers:	None
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1.0 Executive Summary

- 1.1. This report provides an update on Brent's overall financial position by examining the financial outturn position for 2023/24, the Q1 financial forecast for 2024/25 and the medium-term financial outlook, which is part of the committee's role in undertaking budget scrutiny throughout the year.

2.0 Recommendation(s)

2.1 That the committee note the report.

3.0 Contribution to Borough Plan Priorities & Strategic Context

3.1 The Medium Term Financial Strategy provides a framework to invest in broader ambitions and long-term priorities such as the Borough Plan, the cost-of-living crisis and other future steps to ensure the Council continues to operate in a financially sustainable and resilient way as well as supporting residents in need.

4.0 Detail

Financial Outturn 2023/24

4.1 This report (attached as Appendix 1) sets out the outturn for income and expenditure versus the revenue budget and capital programme for 2023/24 and other key financial data. The Council's General Fund outturned at break even. The Housing Revenue Account (HRA) had an underspend of £2m and the Dedicated Schools Grant (DSG) broke even. In 2023/24 the Council's capital programme spent £213m which equates to 95% of the approved budget.

4.2 Whilst the General fund as a whole broke even, there was a service overspend of £11.2m in the Resident Services department, primarily as a result of extremely high levels of demand for homelessness services. Care, Health & Wellbeing overspent by £1.9m and the Children & Young People service overspent by £1.1m, while other General Fund services outturned with modest underspends. The use of earmarked reserves set aside to manage unexpected pressures of £13.5m has resulted in an overall breakeven position for the General Fund.

4.3 Housing report a total net overspend of £13.3m, which is consistent with reported forecasts during the year and is primarily due to extreme pressures on the Housing Needs service. An extremely high level of demand for homelessness services and emergency temporary accommodation is a national issue, but it is particularly acute in London. The Housing Needs Service in Brent has seen a 12% increase in homelessness approaches in 2023/24 (7,300) compared to 2022/23 (6,529). As at the end of March 2024, the total number of homeless households living in emergency B&B and Annexe accommodation has risen from 580 in June 2023 to 751, broken down between 485 families and 266 single people.

4.4 Furthermore, whilst the demand for housing is continuing to increase, the supply is reducing across the whole market. The supply of settled TA properties has decreased significantly due to fewer new properties being procured under Private Sector Leasing (PSL) schemes and owners not renewing the lease for existing stock when the lease ends. Greater reliance on the Private Rented Sector to house lower income households and increasingly limited housing benefits are making accommodation less affordable and available.

4.5 Homeless households placed in temporary accommodation who are entitled to it can claim housing benefit to go towards their housing costs. Local authorities

pay the cost of that housing benefit upfront and then are paid back by the Department for Work and Pensions (DWP) through subsidy arrangements. Households receive the full housing benefit they are entitled to, however the amount the council can claim back is limited to 90% of the Local Housing Allowance (LHA) rates from 2011. This means that if the cost of the housing benefit claim is higher than those rates, the local authority loses money.

- 4.6 The council suffered a £10.4m loss due to these Housing Benefit subsidy rules (up from £3.7m in 2022/23). The council is essentially bridging the gap between rent and the amount the council is allowed to recover in housing benefit subsidy from the Department of Works and Pensions. This means that if the weekly award of housing benefit for a placement in a bed and breakfast is higher than £170 on average per week, the council only receives £170, and the difference comes at a cost to the council. The average placement is in excess of £280 per week.
- 4.7 The Care, Health and Wellbeing department overspent by £1.9m, as a result of pressures against the Adult Social Care budgets. In Quarter 3 the department was forecasting a break-even position. The £1.9m overspend against the Adult Social Care budgets have mainly arisen as a result of assumed income from health contributions of £1.5m for a number of clients, where the Q3 forecast had assumed income of £3m. However, following reviews in the last quarter of the year it transpired that several providers had been funded directly from health. Also, pressures arose against the Community Equipment budget of £0.4m where the supplier withdrew from the contract mid-year although a new provider was subsequently found, there have been some delays and cost pressures with the new contract in 2023/24.
- 4.8 The Children and Young People department's General Fund budget overspent by £1.1 m which is £0.8m more than the Q3 reported position of £0.3m. The increase is largely due to pressures against the Placements budgets in Forward Planning, Performance and Partnerships (FPPP) as it had emerged that some elements of the care leavers semi-independent cost pressures had not been factored into the Q3 forecast. The Placements budget is also dependent on various income and internal recharge sources which were less than anticipated as at Q3. A lack of full, agreed cost sharing for children's care packages at an Integrated Care Board (ICB) level for CYP Placements and Children with Disabilities remain a high risk for the department, particularly in events where placement charges are disputed.
- 4.9 The in-year collection rate for Council Tax was 92.2%, 2.1% lower than the amount achieved in the previous year. The in-year collection rate for Business Rates was 93.2%, this is higher than the amount collected in the same period last year at 93.0%.

Q1 2024/25 Financial Forecast

- 4.10 This report (attached as Appendix 2) sets out the financial forecast for the General Fund revenue budget, the Housing Revenue Account, the Dedicated Schools Grant and the Capital Programme, as at Quarter 1 2024/25. The

Council's revised General Fund revenue budget for 2024/25 is £387m. There is a forecast overspend of £10m against revenue budget at quarter one. If sustained until the year end, this would require a transfer from unallocated reserves. Equally, any overspend not dealt with in 2024/25 could potentially carry over into following year, therefore increasing the requirement for further savings whilst at the same time depleting Council's reserves. The Council is taking a number of mitigating actions, including continuing to implement spending controls, in order to contain identified pressures. The current budget also reflects £8.0m of savings that are set out in Appendix 2(a).

- 4.11 There are also potential budget pressures being reported within the Housing Revenue Account as a result of considerable savings being required following rent limitations imposed by central government in previous years and increased demand and costs associated with repairs. Further details are set out in section 6 of the report included as Appendix 2. While the Dedicated Schools Grant is reporting a breakeven position, there remains a legacy deficit of £15.1m that requires urgent attention. Further details are set out in section 5 of the same report. There is significant risk within the delivery of the Capital Programme due to the complex nature of the projects within it which may result in slippage. Once again, further details can be found in section 7 of the same report.

Medium Term Financial Outlook

- 4.12 This report (attached as Appendix 3) sets out the overall financial position facing the Council and highlights the significant risks, issues and uncertainties with regards to the Council's Medium Term Financial Strategy (MTFS). It also sets out the proposed budget setting strategy for 2025/26, which is the Council's minimum legal duty in respect of local authority budget setting, in order to maximise the period of consultation with residents, businesses and other key stakeholders.
- 4.13 The Council is operating in a challenging financial environment with a funding outlook which is uncertain for local government in general and in particular, there is a lack of clarity around long-term funding for social care. In addition to this uncertainty, there is also the potential for significant spending pressures from demand-led services, specifically in social care and homelessness, new burdens which impact on the budget and on-going pressures as a result of the cost-of-living crisis. Although growth has been built into the MTFS to help alleviate some of these pressures, they continue to present a significant budget risk, particularly in respect of the demographic pressures and contractual indexation. Therefore, Brent is likely to require significant savings over the next few years to deliver a balanced budget.
- 4.14 Housing continues to be a significant area of risk for the Council. The demand for housing services is increasing and the number of homeless applications are rising. The current economic climate could also have an impact on the rent collection rates and result in increases in rent arrears. In addition, the service is reliant on the private rented sector for supply to prevent homelessness and end statutory homelessness duties. However, this market continues to contract. With more people placed in Temporary Accommodation, higher costs

and less supply available to prevent homelessness, this is expected to continue causing financial pressures on the Council's budget.

4.15 Brent has delivered total cumulative savings of £210m since 2010. In February 2024, the Council agreed a further £8m of savings spread across 2024/25 (£3.6m) and 2025/26 (£4.4m). This was in addition to the savings agreed in February 2023 for 2024/25 (£4.5m), taking the total savings to be delivered in 2024/25 (£8.1m) and 2025/26 (£4.4m) to £12.5m.

4.16 The lack of clarity around the future level of local government funding and uncertainty about the economic environment, particularly inflationary pressures, make it hard to be precise about future financial targets. Therefore, the Council has taken a prudent approach over the current MTFS period 2025-2028, in order to return the Council to a sustainable budget position in the medium term.

4.17 Based on the anticipated funding allocations and the current forecast assumptions, the estimated budget gap is £16m in 2025/26, rising to a cumulative £30m by 2027/28. The table below shows how this budget gap is distributed across the MTFS period.

	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)
In year budget gap	16.0	7.0	7.0
Cumulative budget gap	16.0	23.0	30.0

4.18 The table above includes items known at the time of writing this report. As the budget continues to be developed throughout 2024/25, new pressures may arise, or additional in-year savings may be achieved, which will either increase or decrease the forecast budget gap. It is important to note that these figures include several assumptions around future budget growth requirements, interest rates and inflation which could get worse as well as better. For example, if interest rates do not fall as expected and inflation rises again this would increase the budget gap further. It is also important to note that the financial assumptions could improve, for example if interest rate assumptions are lower than these assumptions or demand led pressures are less than anticipated.

4.19 These estimates, which will be refined over the summer, will be a major factor in the construction of the 2025/26 budget. The Council will be looking to identify and deliver savings of £16m to enable it to set a balanced budget for 2025/26. The budget gap for 2026/27 will be reviewed once the local government finance settlement for 2025/26 is known. 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.

4.20 Nevertheless, despite all of the uncertainties, risks and moving parts, all Local Authorities have to put together financial plans for 2025/26. For Brent, it is proposed to continue to base plans on an assessment of the range of possible

scenarios rather than wait for the outcome of the Local Government Finance settlement in December 2024.

4.21 The proposed budget setting process following this Cabinet meeting is as follows:

- Draft budget for 2025/26 and new savings proposals are presented to Cabinet in autumn 2024. The precise date is dependent on the Chancellor's autumn statement where announcements on the Spending Review and Local Government funding are expected;
- The proposals, together with any changes made by Cabinet, will form the basis of consultation between November 2024 and February 2025 with residents, businesses and other key stakeholders;
- The Budget Scrutiny Task Group will review the budget proposals and report accordingly;
- The General Purposes Committee will review the calculation of the Council Tax base in December 2024; and
- After the statutory processes of consultation, scrutiny and equalities have concluded, a draft budget will be presented to Cabinet to recommend a final budget and Council Tax to the February 2025 Council meeting.

5.0 Stakeholder and ward member consultation and engagement

5.1 The detailed approach to the statutory consultation process for the setting of the 2025/26 budget will be set out as part of the draft budget report to be presented to Cabinet in the autumn of 2024.

6.0 Financial Considerations

6.1 The financial implications are set out throughout the report.

7.0 Legal Considerations

7.1 Standing Order 24 sets out the process that applies within the Council for developing budget and capital proposals for 2025/26. 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.

8.0 Equity, Diversity & Inclusion (EDI) Considerations

8.1 There are no EDI considerations arising out of this report.

9.0 Climate Change and Environmental Considerations

9.1 There are no climate change and environmental considerations arising out of this report.

10.0 Human Resources/Property Considerations (if appropriate)

10.1 There are no human resources/property considerations arising out of this report.

11.0 Communication Considerations

11.1 There are no communication considerations arising out of this report.

Report sign off:

Minesh Patel

Corporate Director of Finance & Resources