

	<p style="text-align: center;">Executive 16 July 2012</p> <p style="text-align: center;">Report from Director of Finance and Corporate Services</p>
All Wards	
Budget Strategy 2013/14 to 2015/16	

1.0 Introduction

- 1.1 This report sets out the financial prospects for the Council for the next three years.
- 1.2 It seeks Executive approval for the overall budget strategy based on the One Council Programme and the delivery of the Borough Plan.

2.0 Recommendations

- 2.1 To note the latest forecast for the Council's revenue budget for 2013/14 to 2015/16 at Appendix A and the assumptions used to derive this.
- 2.2 To endorse the overall budget process set out in the report.
- 2.3 To note the proposed budget timetable.

3.0 Baseline Position 2013/14 to 2015/16

- 3.1 The Budget Report to Council on 27 February 2012 included a financial forecast as part of the Medium Term Financial Strategy, which included the following main assumptions:

3.2 Spending assumptions

- Service area budgets rolled forward at 2012/13 levels into future years;
- An allowance for pay inflation of 1% in 2013/14 and 2014/15 and 2% in 2015/16;
- No general inflation for prices in 2013/14 and future years;
- In addition an allowance has been made for providing additional monies to fund the pension fund deficit with additional contributions of £0.5m per annum from 2013/14.
- No savings assumptions are as yet built into service area budgets for 2013/14 onwards;

- Provision for cost pressures in service area budgets of £2,196k in 2013/14, £1,193k in 2014/15 and £650k in 2015/16. These assumptions will be subject to further review during the budget process
- The medium term forecast for central items included:
 - o *Debt charges (capital financing charges net of interest receipts)*: These were forecast to grow from £25.563m in 2012/13 to £26.603m in 2013/14, £28.104m in 2014/15 and £29.668m in 2015/16;
 - o *Levies (Principally the fixed cost element of West London Waste)*: These were forecast to grow from £2.579m in 2012/13 to £2.803m in 2013/14, £3.043m in 2014/15 and £3.293m in 2015/16;
 - o *Freedom Pass/concessionary fares*. These have risen significantly over the last few years and the budget for 2012/13 is £14.771m. The current assumption for future years was that prices will rise by 4% and there would be a 1.5% increase in usage. In addition because of the volatility of this budget in the past an additional contingency of £500k had been allowed for in 2013/14 to reflect any additional increases in transport costs. Therefore, provision has been made for an additional £1.360m (2013/14), £887k (2014/15) and £936k (2015/16).
 - o *New Homes Bonus*. The assumption was that this would increase by £1.4m per annum.
 - o *Redundancy and Restructuring Costs*.. These costs were anticipated to reduce over the medium term as higher redundancy and severance costs in the earlier years are replaced with the actuarial strain costs of meeting the costs of early retirements which are spread over three years.

3.3 Resource assumptions

- Formula grant of £152.086m in 2013/14, £138.958m in 2014/15 and £136.383m in 2015/16 (based on national assumptions from the Autumn Statement 2011);
- Other unallocated grants to remain at 2013/14 levels
- Council tax base increase of 0.8% in 2013/14 and 0.7% thereafter;
- Council tax collection of 97.5% in each year;
- Council tax increases of 3.5% in 2013/14 and 2.5% in the following two years.

3.4 The assumptions above produced a gap to be bridged for the period 2013/14 to 2015/16 as follows:

Table 1: Estimated Budget Gap at 27 February 2012

	2013/14 £m	2014/15 £m	2015/16 £m
Net Savings Required	9.3	11.6	5.3
Savings Identified	11.3	6.2	1.5
Budget Gap/(Surplus):			
Annual	(2.0)	5.4	3.8
Cumulative	(2.0)	(3.4)	(7.2)

4.0 Updated Position

- 4.1 There are a number of key developments that will affect our projections and these are set out below. However it should be noted that in a number of these there is still uncertainty around the final arrangements so the figures are still subject to change.

Council Tax Support

- 4.2 The move away from council tax benefit will not only have an immediate effect (as a result of implementing the new council tax support scheme from April 2013) but will also lead to a permanent reduction in the council tax base. Therefore the previous assumptions about the additional resource from council tax increases will be reduced.
- 4.3 The current forecast includes council tax increases of 3.5% in 2013/14 and 2.5% in the two years that follow. Due to the lower tax base total council tax income from will be £2.3m lower by 2015/16. It is not yet known what level of increase will be set b the Secretary of State to trigger a local referendum.
- 4.4 The possibility of further Council Tax Freeze Grants from CLG cannot be ruled out at this stage. If such a grant is offered, the Council would need to decide whether to accept it (and continue the erosion of its tax base) or reject it.
- 4.5 Although proposals are being developed for the council tax support scheme to meet the shortfall in funding in 2012/13, the Council would need to meet the cost of further increases in entitlement for council tax discounts in later years. An additional £0.5m per annum has been allowed at this stage based on initial modelling work.

Business Rates Retention

- 4.6 The current figures assume that impact of the new business rate retention scheme will be neutral to the Council's finances. Recent announcements have changed the likely nature of the scheme with the government continuing to hold a significant role in the funding of authorities by retaining 50% of

business rates and continuing to distribute revenue support grant on an annual basis. The GLA will also share in any growth or fall in rates and this could potentially be up to 25% of the total.

- 4.7 Until the detailed design of the new scheme is known it is not possible to assess its likely impact. However it is expected that key issues for the authority will include:
- Revaluation appeals by business rate payers (will lead to unfunded drop in income)
 - Loss of businesses through economic decline
 - Growth in base rates from baseline
 - Collection rates

Cost Forecasts

- 4.8 The provision for costs relating to the One Council Programme included an enabling fund of £5.5m per annum. By tapering down this requirement over the medium term this reduces the budget to £1.5m by 2015/16.
- 4.9 An initial review of service area budgets has identified a net increase in the period to 2015/16 of £0.7million. The most significant item is the extent to which current costs relating to adult social care transitions exceed the existing budget. Growth forecasts in future years will remain restricted in the expectation that the new integrated transitions service will enable successful management of demand in this area.

Savings

- 4.10 A review of savings has identified the following significant issues to be incorporated into the updated position:
- Deferring the delivery of expected savings on health integration (£2.2m) and planning fees (£800k) by one year
 - Reduction in anticipated savings from the realigning corporate and business support one council project (£2m)
- 4.11 There are also risks around the delivery of some savings that have not been factored in to the figures at this stage including procurement savings and waste and recycling.

Central Items

- 4.12 Additional income from the New Homes Bonus (£0.7m by 2015/16) has been allowed for to reflect the latest information regarding properties on the valuation register.

- 4.13 The capital financing budget forecast has been reduced to reflect the ongoing savings secured by taking out long-term fixed rate borrowing at the current low rates.

Revised Gap

- 4.14 A summary of all the changes above is set out in Appendix 1. In broad terms the pattern of the residual gap remains unchanged:

	2013/14 £m	2014/15 £m	2015/16 £m
February 2012	-2.0	3.4	7.2
Net Movement	1.8	-0.9	0.3
June 2012	-0.2	2.5	7.5

Members are reminded that this forecast is based on the Council a new Council Tax Support scheme and that should the Council not support this, the gap would increase by around £5.2m in each year.

4.15 *Capital Programme*

Appendix 2 sets out the current Capital Programme assumptions and the consequential impact on borrowing costs have been factored into the main financial forecasts. Clearly capital money is not free – it has a revenue impact and hence the strategy for future years will be to support programmes which are externally funded and those which deliver revenue savings equal to or greater than the debt costs. Conversely schemes requiring unsupported borrowing and which have net debt costs must be reduced to a minimum or eliminated.

5.0 Proposed Budget Strategy and the One Council Programme

- 5.1 The Council's budgeting process has changed significantly to meet the challenges of delivering services with reducing resources. The One Council programme, along with a fundamental review of service provision across the Council have been the key drivers for delivering the savings required.
- 5.2 Over the next few years the delivery of the savings from the One Council programme will continue to be a vital ingredient of the Council's strategy of protecting front-line services whilst cutting costs.
- 5.3 In addition there are a number of emerging national and local issues for the Council to address over the next four years.

5.4 Other Measures

Apart from the main projects within the One Council Programme there are a number of other actions that will need to be undertaken to help deliver a balanced and robust budget over the medium term.

- (i) Ensuring that each Service Area does not overspend its current year's budget and that where potential overspends are identified, virements to cover this are identified at the time.
- (ii) Ensuring that One Council savings are delivered as forecast and again, where slippage occurs, identifying compensating savings;
- (iii) All central items to be robustly controlled.
- (iv) "*Inescapable Growth*" to be minimised and funded from within existing budgets if at all possible.
- (v) Borrowing within the capital programme limited as a maximum to currently assumed levels and with priority given to funding from other sources.
- (vi) Engage in reviews relating to local government funding and lobby on areas affecting resources available to Brent
- (vii) Consider various options around levels of Council Tax.

6.0 Timetable

- 6.1 Appendix 3 sets out a draft outline timetable for the 2013/14 budget.

7.0 Financial Implications

- 7.1 These are contained in the body of the report. There are no direct costs or other direct financial implications arising from this report.

8.0 Legal Implications

- 8.1 A local authority must budget so as to give a reasonable degree of certainty as to the maintenance of its services. In particular, local authorities are required by the Local Government Finance Act 1992 to calculate as part of their overall budget what amounts are appropriate for contingencies and reserves. The Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year. The Chief Financial Officer is required to report on the robustness of the proposed financial reserves.
- 8.2 Under the Brent Member Code of Conduct members are required when reaching decisions to have regard to relevant advice from the Chief Finance Officer (the Director of Finance and Corporate Services) and the Monitoring Officer (the Borough Solicitor). If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a breach of the Code by individual members if it can be demonstrated that they have not had proper regard to the advice given.
- 8.3 In accordance with the Local Government Finance Act 1992, where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of

consideration at a meeting: (a) any decision relating to the administration or enforcement of Council Tax (b) any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax or (c) any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation. These rules are extremely wide in scope so virtually any Council decision which has financial implications is one which might affect the making of the budget underlying the Council Tax for next year and thus is caught. The former DoE (now DCLG) shared this interpretation as it made clear in its letter to the AMA dated 28th May 1992. Members who make a declaration are not entitled to vote on the matter in question but are not prevented by the section from taking part in the discussion. Breach of the rules is a criminal offence under section 106 which attracts a maximum fine of £1,000.

9.0 Diversity Implications

- 9.1 Impact assessments will be carried out in advance of formulation of budget proposals.

10.0 Staffing Implications

- 10.1 None directly as a result of this report.

11.0 Background Information

- 11.1 Report to Full Council, 27 February 2012 – 2012/13 Budget and Council Tax.

12.0 Contact Officers

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