POST-ELECTION BRIEFING ON THE BOROUGH'S FINANCIAL PROSPECTS

Summary

1. This paper sets out the key financial issues the next administration will face. These are:

   - Providing more with less – improving services and meeting increasing demand when there will be no real growth in external funding. Key issues are:
     - Sustainable level of council tax;
     - Strategic decisions about priority service growth;
     - Constraining growth pressures eg transfer of costs from health, pay growth as a result of single status etc;
     - Rigorous evaluation of individual growth proposals;
     - Enforcing annual 2% savings targets;
     - Taking bold decisions on customer service, social care commissioning, shared services etc as part of the efficiency agenda;
     - Reviewing charges for services;
   - Ensuring an affordable capital programme. Key issues are:
     - Prioritising between different demands on the programme;
     - Finding additional funding sources including capital receipts, section 106 funding, PFI and other external funding sources;
     - Ensuring value for money in the delivery of the programme;
   - Providing infrastructure and services to meet the needs of a growing population. Key issues are:
     - Using our influence with government to gain recognition of the need for funding if we are to meet London Plan targets for additional housing;
     - Being creative in our use of planning gain and our own resources;
     - Being prepared to radically reshape provision of public services within the borough to reflect the proposed growth strategy;
     - Using our community leadership role both to promote partners' cases for resources with government and to challenge partners to re-shape their service provision to reflect the proposed growth strategy.

Revenue budget

2. The largest financial issue the council will face over the next four years is how it continues to improve services and meet increasing demands with limited resources.

3. The council's overall finances are secure:
   - The council has successfully contained spending within resources in recent years, with limited overspends in service areas being matched by broadly similar under-spends in central services.
   - The 2006/07 budget is based on robust assumptions, with growth built into the budget for significant budget pressures, particularly in adult social care.
   - Balances at 31st March 2006 are £7.7m[1] and are forecast to be at that level at 31st March 2007, sufficient to meet in-year risks and provide some flexibility for medium term financial planning.

4. But funding increases over the next four years will be much more constrained than over the past four years and the period before that. Two main factors drive this.

5. Firstly, the council can expect to be at the 'floor' level of grant increase over the next four years. Currently the council receives around £14m 'floor' grant which protects it from actual cuts in grant. Even if the council persuades the government to revise Brent's population figures – which is only one of a number of reasons that the council is on the grant floor – it will take some years to move above the grant 'floor'.

6. The 'floor' increase in grant was 2% in 2006/07 and will be 2.7% in 2007/08. Public finances are tightening and it is likely that grant increases will be in the range of 2% to 3% for the period of the new administration, similar to 2006/07 but well below levels of increase in the years up to 2005/06.

7. Secondly, council tax capping is here to stay. The council will not be able to increase council tax in the early years of the administration to fund its priorities. In 2006/07, both York and Medway increased their council tax by 5.5% and were capped – so we can expect similar rules to apply to Brent over the period of the administration.

8. Clearly level of council tax increase will be one of the key choices that a new administration will make. But even if a choice is made to increase council tax by the maximum of 5% per annum, the combined effect of 'floor' increases in grant and the council tax increase would limit growth in funds to 3-3.5% per annum. The Chancellor has recently announced his determination to keep public sector pay awards down to well under 3%. If he is able to impose this within local government, and annual price inflation remains at current levels of around 2.5%, there will be provision within the budget for a maximum of 0.5% to 1% real growth.

9. This 0.5-1% real growth - which equates to between £1- £2m - would be insufficient to meet all the budget pressures within the council. Key areas of pressure on revenue spending are as follows:
   - Adult care – there is growth of £3m in the 2006/07 budget to pay demographic pressures and transferred costs from the tPCT. If this

[1] Subject to confirmation once 2005/06 accounts are closed.

carried on growing at the current rate, this more than eats up any scope for real growth in the budget;

- Children's services – key pressures are (1) level of risk in the existing budget which is relatively low; and (2) uncertainty about future funding beyond 2007/08 for children's centres;
- Waste management - the desire to build improved standards into the new contract starting from 2007/08 could add significant amounts to the current annual cost of the contract;
- Other priority growth services – other priority growth areas will be identified as part of the new corporate strategy. One area where it can reasonably be expected there will be need for increasing funds is sports and leisure which is currently relatively low spending and has been identified as one of the priorities for improvement in the Local Area Agreement;
- Neighbourhood working – there is already £1m built in for ward working, but the intention to provide more services on a neighbourhood basis may lead to additional costs;
- The civic centre – growth is built into existing financial projections for this. Even if the council does not go ahead with the proposed civic centre, additional funding would be required to bring existing office accommodation up to standard;
- Single status – this comes into effect from 1 April 2007. Currently £2m growth has been assumed for this;
- Pension Fund valuation for 1 April 2007. It is not clear what the impact of this will be but we are currently assuming contributions will continue to increase at the current rate of 1.5% per annum.

10. If growth is provided for these items, measures will have to be taken to ensure they can be funded within available resources. These will include:

- Being clear about what the priorities are and only allocating growth to those areas;
- Being rigorous in our assessment of the level of additional funding needed for each of these areas;
- Being robust in our relations with the tPCT to prevent transfer of more costs to the council;
- Ensuring all services deliver 2% annual savings built into cash limits;
- Focusing within the efficiency agenda on those changes that could yield significant savings – particularly, review of customer service provision, delivery of improved commissioning arrangements in adult social care, use of IT to deliver process efficiencies eg remote working, maximising savings from better procurement; achieving efficiencies by sharing services with other organisations;
- Reviewing fees and charges to identify opportunities for increasing income by charging for services we do not already charge for and increasing charges for services we do charge for.

11. The issues covered above just relate to the General Fund revenue budget, excluding schools. The schools budget is now ring-fenced and costs are met through the Dedicated Schools Grant. We can expect significant growth of funding in this area, partly because Brent schools have been historically under-funded and this is being corrected through introduction of the Dedicated Schools Grant (albeit that this is one of the reasons why our Formula Grant increases will be at the 'floor') and partly because this is one area where the Chancellor has committed to putting further funds in at a national level. There is a mismatch in the schools sector between the relatively healthy revenue budget prospects and the unhealthy capital position (see below) and one of the issue we should be exploring with the government and with schools is the extent to which some of the additional revenue resources can be used to meet costs of borrowing to up-grade the schools infrastructure. At the moment, rules relating to the Dedicated Schools Grant and Budget limit the ability to do this – although it can be done in certain restricted circumstances – and we need to explore ways of removing these limits.

12. This briefing has also not dealt with the Housing Revenue Account. There is significant pressure on HRA resources with anticipated deficits of £3.4m in 2007/08 and £2.7m in 2008/09. A review is currently being carried out about how these forecast deficits will be addressed and at this stage it is too early to assess likely implications for service provided to council tenants or rent increases.

Capital issues

13. There will also be pressure on capital resources. The introduction of the prudential borrowing regime means there is more flexibility to use borrowing to fund the capital programme. But the consequence of this borrowing is further pressure on the revenue budget, and current levels of borrowing are unsustainable in the medium term given the other revenue budget pressures we face.

14. The key issues we will face are as follows:

- Funding of the schools capital programme – this continues to be the area of greatest capital spending need. There are opportunities to charge some of the resulting revenue costs to the Dedicated Schools Budget and we will need to address this with the Schools Forum;
- Rationalisation of libraries and day care service provision - both of these should lead to revenue savings, but there will need to be up-front capital resources. The issue for the council is how far the capital investment can be funded either from capital receipts from releasing existing buildings or from external sources such as the National Lottery. This is also tied in with delivery of the neighbourhood agenda (see above);
- Improvements to the public realm – investment in roads, pavements, and parks has been at record levels in recent years – the amount provided for the next four years of the capital programme is marginally less than the past four years but still high by historical standards. Can this be sustained?

- Private sector and social housing – the amounts being invested are relatively high compared to other authorities and there is no recognition of this spending in grant mechanisms. Again, there has been a reduction in the 2006-2010 capital programme, but can it be reduced further?
- The civic centre – provision of a civic centre will be a major capital commitment. At the moment we are working on the assumption that the all revenue costs of the scheme – including capital financing charges on borrowing – can be met within existing revenue budgets for office accommodation plus growth in the medium term financial plan for the civic centre. This assumption will need to be kept under review;
- Other priorities – the council has an ambitious agenda to provide improved public facilities in South Kilburn and address shortage of leisure facilities in the north of the borough. But no funding is currently provided within the capital programme to meet the capital costs or in the revenue budget to meet additional running costs. So we will have to find external funding sources for these – government, National Lottery, S106 – or consider what else we do not do to allow these to be funded;
- Capital receipts - £9m worth of non-Right to Buy receipts have been built into the 2006-2010 capital programme. This is relatively high compared to recent years but achievable. The question is can we go further?
- S106 – there is an on-going concern about whether we are maximising our use of S106 funds to fund corporate priorities within the capital programme, thereby reducing the call on borrowing. Environment and Culture have been working closely with F&CR to address this and there are proposals to change the basis on which planning gain is received. Proposals from the Treasury for introduction of a national Planning Gain Supplement scheme mean there is considerable uncertainty in this area;
- Other sources of funding – the council has successfully used PFI as a way of securing government funding for capital improvements to street lighting, Willesden Green Leisure Centre and (planned) additional affordable housing. We also succeeded in securing funding for the Capital City Academy and will get funding for the second Academy, if approved. What other funding options are there?

15. The capital programme is a four year rolling programme. It does not automatically mean that because schemes are not in the current capital programme, they cannot be included in later years of future years' capital programmes. But ability to add new schemes is hampered by the significant sums currently included within the programme for block programmes such as highways and pavements, private sector housing and social housing.

16. There is also a need to address fundamental issues about value for money from the capital programme. The council has improved its measures of outcomes from the additional capital money put into services in recent years. But services need to get better at linking funding allocated over a four year period to the benefits the council can expect to achieve. This has to be tied in with better options appraisal within a longer term planning framework. This will enable members to make clearer choices about how limited capital resources need to be used to achieve the wider improving Brent agenda.

Providing infrastructure and services for a growing population

17. The issue about section 106 funding is tied in with a wider debate about the funding that will be in place for infrastructure and service development to meet housing and population increases forecast in the London Plan, with 11,200 additional homes likely to have to be provided by 2016.

18. The Planning Service is currently leading on developing a strategic approach to delivering additional housing, and related development, as part of the Local Development Framework. This is going to put great pressure on council resources given in particular the fact that the council's current population growth is not reflected in additional government funding and the difficulties the council has had in attracting DFES funding for school expansion. It will also put pressure on provision of infrastructure and service by partners, including health. Addressing these issue needs to be integral to the next administration's financial strategy and it is suggested a four pronged approach should be adopted as follows:

19. In order to address the issues set out in the paragraph above, the council needs to develop a four pronged approach, as follows:

- Use our influence with government to gain recognition of the need for funding for infrastructure and associated running costs. We should be using our commitment and support for expanding the borough and meeting government targets on additional homes, plus the predictability that our proposed approach to development will provide, as a lever to gain movement from government departments on issues such as under-counting of population in the calculation of Formula Grant, school capital funding, the proposed arrangements for Planning Gain Supplement, and provision of transport infrastructure;
- Be creative in our use of planning gain and our own resources eg the proposed introduction of a standard charging method for section 106 agreements providing more flexibility on how funds are used, using section 106 funds to attract match fund from bodies such as TfL, exploiting alternative sources of funding (e.g. City Academies), and using the council's own land resources to help fund development eg Bridge Park/Unisys, Queens Park and Church End;
- Be prepared to radically reshape provision of public services within the borough to reflect the proposed growth strategy. This will mean looking again at the way services are provided and being prepared to close existing service provision in low growth areas to fund new service provision in growth areas. This will be a fundamental challenge to the way the council currently provides services;
- Use our community leadership role to promote partners' cases with government for resources that reflect population growth but also challenge partners to re-shape their service provision to reflect the proposed growth strategy. This will require intensive work with partners to secure their commitment to the growth strategy.

Appendix C

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