Brent	**Cabinet** 19 July 2021
	Report from the Director of Finance

Medium Term Financial Outlook

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:	One: Appendix A - 2021/22 and 2022/23 savings
Background Papers:	N/A
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1.0 Purpose of the Report

1.1. This report 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). This includes risks and uncertainties that already existed prior to COVID-19 and the new risks that must now be addressed. It also sets out the proposed budget setting strategy for 2022/23, which is the Council's minimum legal duty in respect of local authority budget setting, and beyond in order to maximise the period of consultation with residents, businesses and other key stakeholders.

1.2. The report also outlines how the MTFS will aim to provide a framework to invest broader ambitions and long term priorities such as the Borough Plan, the recovery from COVID-19 and other future steps to ensure the Council continues to operate in a financially sustainable and resilient way.

1.3. The remainder of this report sets out the medium term risks and uncertainties with regards to the current budget assumptions contained within the MTFS. In doing so, it must be recognised that the situation remains ongoing and it is extremely difficult to make a full, definitive and comprehensive assessment of the ongoing financial impact of the pandemic. As such, the figures in this report are based upon best estimates and forecasts and will therefore be subject to change. However, the significance of the financial challenge cannot be underestimated and over time, the Council will need to develop a response that continues to maintain a commitment to strong financial resilience and sustainability.

1.4. This report is structured as follows:

- Recommendations for Cabinet to approve;
- Strategic overview of Local Government finance;
- Future budget assumptions;
- Proposed budget setting process for 2022/23;
- Capital programme;
- Housing Revenue Account;
- Schools and the Dedicated Schools Grant;
- Overall summary and conclusion.

2.0 Recommendation(s)

That Cabinet:

2.1 Note the contents of the report and the potential financial impact on the Council's Medium Term Financial Strategy.

2.2 Agrees the budget setting process for 2022/23, including the approach to consultation and scrutiny, as set out in section five of this report.

2.3 Note and agree the proposed 2020/21 capital budget carry forwards and capital virements, as set out in section six of this report.

2.4 Note the financial position with regards to the Housing Revenue Account, as set out in section seven of this report.

2.5 Note the financial position with regards to Schools and the Dedicated Schools Grant, as set out in section eight of this report.

3.0 Strategic Overview

3.1 The COVID-19 pandemic continues to impact on local economies for which the full effects are yet to be felt. During 2020, UK GDP contracted by 9.9%, the largest annual fall for over 300 years, and fell again by 2.9% in January 2021. The pandemic also coincided with the initial economic effects of leaving the EU. In response, the government introduced an unprecedented £344 billion package of financial support to protect jobs, households, and business as well as additional grants for public services. Even so, local government finances have been under extreme pressure. The National Audit Office suggests more than four out of five English local authorities are planning cuts to services in 2021/22.

3.2 Oxford Economics, in a report commissioned by West London Boroughs, estimated that the Brent economy had contracted by 9% in 2020, losing 3,800 jobs (a fall of 2.6% compared with 1.9% for West London as a whole and 1.5% for the UK). For 2021 they forecast a further loss of 3,700 jobs and slow job growth afterwards, adding 2,600 jobs by 2025 - an average 0.3% per year, the second-lowest rate across the seven WLA boroughs. They do not expect employment to return to its pre-pandemic level until 2024.

3.3 In addition, as at April 2021, out of the seven West London boroughs Brent has the highest number of out of work claimants, the highest unemployment rate and the third highest number of people furloughed. Clearly the pandemic has created significant economic damage that is likely to amplify existing local economic challenges. Despite the continued high degree of uncertainty about the future path of the economy, it is essential for the Council to keep up to date with changes in the national context as well local economic trends. In this context, section four of this report will explain what the impact on Council Tax income and Business Rates income could be in future years and the potential consequences for the MTFS.

3.4 Despite the high degree of uncertainty about the future path of the economy it is essential for the Council to plan and invest in the local recovery from the pandemic. In addition, an important factor will be to ensure the approach to investing in the recovery supports broader ambitions and long term priorities such as the Borough Plan. It is for this reason that, on 12 July 2021, Full Council agreed the use of reserves to facilitate the delivery of programmes in priority areas identified as essential to secure a sustainable and inclusive recovery from the COVID-19 pandemic. These projects are themed around supporting communities, supporting businesses, reducing health inequalities and a green recovery.

3.5 Financial investment is an important driver for local recovery. The approach that has been set out has been carefully considered, whilst understanding that a failure to invest in a local recovery could well be a risk in itself. As emergency support from central government winds down, local actions are likely to be at the forefront of shaping the recovery.

3.6 The recovery plan is not a set of un-costed spending plans. It is a framework to enable the various projects to happen, in particular to use the Council's reserves in more creative ways. These commitments cannot be entered into lightly, as reserves can only be spent once. However, the new reserve has been made possible as a result of non ring fenced emergency COVID-19 central government grants that were not needed to be utilised in 2020/21, not the Council's own resources.

3.7 It is within this overall financial context that the other financial reports on this agenda, specifically the Financial Outturn 2020/21 report and Q1 2021/22 Financial Forecast report, become particularly relevant. Firstly, the Financial Outturn 2020/21 report sets out the outturn for income and expenditure versus the revenue budget for 2020/21. Despite reporting an overall General Fund overspend of £41.2m as a result of COVID-19, emergency funding from central government, and other interventions undertaken by the Council, were sufficient to offset these pressures. In addition, some unspent, or the balance of unspent, emergency government grants were able to be taken to reserves to address any unbudgeted additional costs of COVID-19 in 2021/22. Secondly, the Q1 Financial Forecast report sets out that based on current assumptions, the financial impact of COVID-19 can be contained with the overall growth built in the 2021/22 budget.

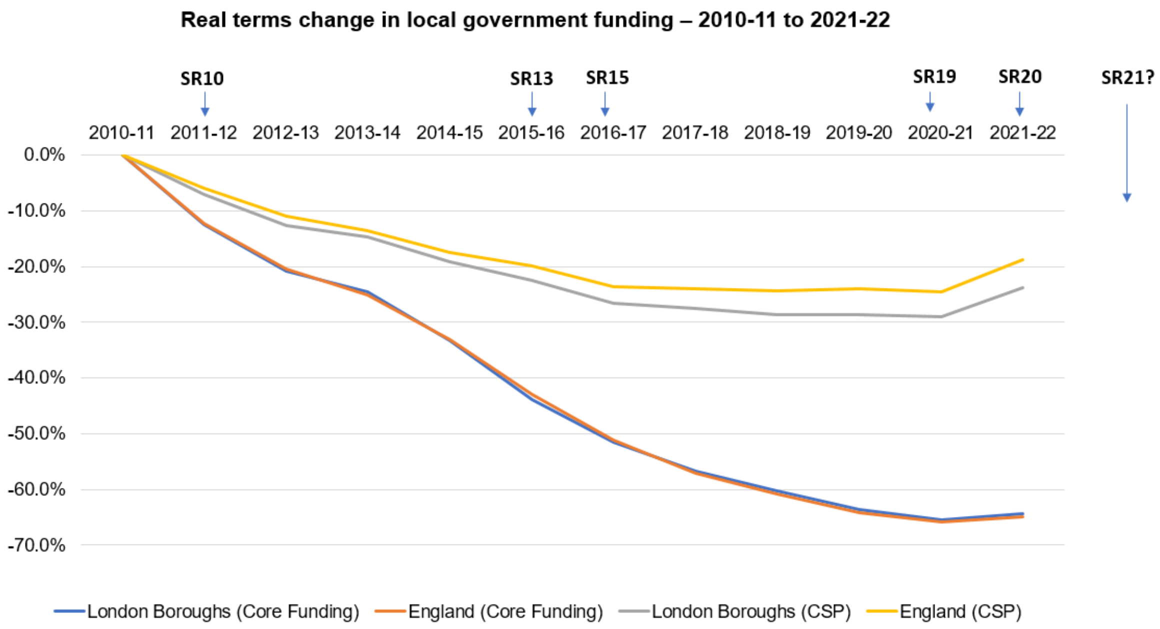
3.8 However, it must be stressed that these forecasts and estimates are based on a number of assumptions which are subject to constant change. It is incredibly difficult to predict the implications of the changes to the furlough scheme, how business will recover as grants to businesses and business rates reliefs begin to wind down and how the general economy will recover after COVID-19. In addition, while the easing of restrictions announced in the government's roadmap on 22 February and the pace of the vaccine rollout provided reasons to be optimistic, the government's recent announcement that the final stage of the COVID-19 roadmap has been delayed demonstrates the constantly changing nature of the situation, making financial planning and management exceptionally challenging. This uncertainty runs alongside existing budget pressures including social care demand, demographic changes, housing and homelessness.

3.9 Nevertheless, despite all of the uncertainties, risks and moving parts, all Local Authorities have to put together financial plans for 2022/23. For Brent, it is proposed to continue to base plans on an assessment on the range of possible scenarios rather than wait for the outcome of the Local Government Finance settlement in December 2021.

3.10 The same uncertainty also applies to central government. Alongside the uncertainty caused by the pandemic, the government also has to make some fundamental decisions about the future of Local Government Finance, the Fair Funding Review, the future of business rates, reform of social care and how to deliver 'levelling up'. The Fair Funding Review was originally intended to take place from 2020/21, then 2021/22 and now expected 2022/23. As part of this review, London is expected to lose spending power. In addition, the government is committed to ‘levelling up’, which has thus far been interpreted as boosting economic prosperity in the North, the Midlands and Scotland.

3.11 The chart below sets out the context of the overall financial challenge for Local Government. The challenge for MHCLG is that any spending reductions will be in addition to those imposed between 2010/11 and 2018/19, unless, that is, there were to be a substantial increase in overall local government funding from central grants. Given the risk of Section 114 notices, it is hard to see how the government could deliver a radical Fair Funding Review outcome without some negative effects.

2010-11 to 2021-22… CSP down by a quarter.. What next?



3.12 At the time of writing, it remains unclear when the Spending Review will take place. It is doubtful that the government will be in a position in the near future to commit to public spending levels over the medium term given the current uncertainty and flux in the economy. This means that Brent, like all other local authorities, will need to continue to plan with little or no funding certainty over the medium term. There is widespread consensus that is it too late for government to implement these changes in 2022/23. On the one hand, this would give the government and local government time to digest the changes caused by the pandemic and create a new funding system that can cope with the new circumstances. It would therefore not be unreasonable to assume that the government would repeat the same process as last year, which was to roll over last year’s settlement figures, uplift for inflation and provide some additional one off targeted grant funding. However, while this would be a broadly positive outcome for Brent, it does not resolve the existing issues within the current system, for example unsustainable above inflation increases in Council Tax, volatility in the business rates regime and over reliance on short term grant funding for social care.

4.0 Medium Term Financial Strategy

4.1 The aim of the MTFS is to ensure a long term, stable and sustainable financial position that will allow the Council to achieve its strategic objectives. It reflects the impact of central government funding decisions and the impacts of the national and local economic context. It also provides a robust financial framework to support achievement of the Council's overall objectives and delivery of services.

4.2 The budget for 2021/22 was agreed in February 2021, and in another report on this agenda the first forecasts against that budget are reported. In February 2021 Council also agreed the business plans for 2022/23. In February 2022 it would be open to Council, subject to all the usual planning uncertainties and caveats, simply to re-confirm the proposals set out a year earlier, which would result in a balanced budget for the 2022/23 financial year. In addition, the budgets for those years are predicated on the delivery of £8.5m of savings in 2021/22 and £2.7m in 2022/23. These savings, which were subject to an extensive process of consultation, scrutiny and equalities analyses, are attached in Appendix A. A high level summary of the development of the 2021/22 budget is shown in the table below.

Table 1: Recap of 2021/22 budget process

Table 1: 2021/22 overall budget	**2021/22 £m**
Budget Gap as at December 2020	20.3
New General Fund Savings (Appendix A)	(4.2)
Updated grant income assumptions following Provisional Finance Settlement	(2.0)
Covid-19 funding (one off)	(9.0)
Updated income assumptions for Council Tax and Business Rates	(5.1)
Budget Gap 2021/22 at February 2021	0

4.3 At the time the MTFS was agreed in February 2021, it was recognised that the Council was already operating in a significantly challenging financial environment prior to the outbreak of COVID-19. Most notably, these were around the uncertain funding outlook for local government, uncertainty around long term funding for adult social care and emerging pressures in children's services.

4.4 In addition to the uncertainty, there is also the potential for significant spending pressures from demand-led services, specifically in children's and adult social care, new burdens which impact on the budget and new pressures as a result of COVID-19. 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 and contractual pressures. For example:

- The impacts of the new COVID-19 variant is not fully known or how the pandemic will play out for the remainder of the year. The public health impact of lifting restrictions is uncertain and could see spending forecasts increase (especially if a third wave occurs). It is expected that the costs of new variants of concern and ongoing costs of test and trace will continue for the remainder of the year. Therefore, there is a level of risk when setting the budget that the Council may be exposed to unfunded financial pressures in-year.

- The new income loss compensation scheme announced for Council Tax and Business Rates does not fully cover the losses the Council is estimating and only applies to losses incurred in 2020/21. The ending of the furlough scheme in September, the tapering of business rates reliefs and the ending of business support grants are likely to have a continuing impact on business rates income. Other income losses will be dependent on the pace at which the economy recovers. Overall, income losses can pose a considerable budget pressure.

- The level of 'scarring' that has occurred, for example pent up demand in children's social care, long Covid and the mental health impact on adult social care. In addition, the extent to which current circumstances will become the 'new normal', for example greater domestic waste if more people continue to work from home and a larger role for Public Health.

If these were to transpire, without any further government support, they could expose the Council to a liability that may require it to put in place further savings and/or expenditure reductions in order to balance the overall budget and MTFS.

4.5 The impact of COVID-19 will require the Council to review its medium term financial strategy on a more regular basis to ensure that it is still able to deliver its strategic priorities and maintain financial resilience. Though the precise financial impact of COVID-19 remains difficult to predict, officers will continue to report on the Council's financial position to Cabinet at regular intervals in line with its existing governance arrangements.

4.6 The MTFS will be refreshed as part of the draft 2022/23 budget that will be presented to Cabinet later this year, including extending out to 2023/24 and beyond. Adopting a long term and forward looking approach should leave the Council in a relatively strong financial position, with long term plans in place to give certainty to residents about future levels of service provision.

Delivery of previously agreed savings

4.7 The budget agreed by Council in February 2021 included savings of £8.5m in 2021/22 and £2.7m in 2022/23. Considering the work undertaken throughout the budget setting process for 2021/22 to ensure that robust and realistic savings and income proposals were put forward and implemented, it would have been expected to see the majority, if not all, of the proposals to be on track to be delivered. Understandably, immediate service priorities have changed as part of the emergency response to the outbreak, as well as managing the additional income and expenditure pressures arising on existing budgets, which inevitably would have an impact on the delivery of some savings plans previously agreed by Council.

4.8 That being said, the savings proposals for 2021/22 and 2022/23 are designed to limit, as far as possible, service reductions and the impact on front line services particularly during these challenging times. For example, the majority of the proposals include expected gains from reduced procurement spend, service transformations and efficiency savings. This does not mean that delivering these planned savings will be managerially straightforward, or that front-line services will be entirely unaffected, or that they can be achieved without staffing reductions, but it is nonetheless the case that the proposals do not include the wholesale cuts to services that many Councils are considering and indeed implementing.

4.9 The initial assessment of the impact of COVID-19 on the delivery of these savings is summarised by department in the table below. Further details on individual savings can be found in Appendix A.

Table 2: MTFS Savings

	Savings on track to be delivered	**Possible slippage on delivery but still achievable**	**Savings at risk and mitigating actions being developed**	**Total**
	£m	**£m**	**£m**	**£m**
Assistant Chief Executive	(0.2)	0.0	0.0	**(0.2)**
Chief Executive	(0.5)	0.0	0.0	**(0.5)**
Children & Young People	(0.4)	(0.5)	0.0	**(0.9)**
Community Wellbeing	(4.7)	0.0	0.0	**(4.7)**
Customer & Digital Services	(1.1)	0.0	0.0	**(1.1)**
Regeneration & Environment	(1.1)	0.0	(0.2)	**(1.3)**
Corporate	(2.5)	0.0	0.0	**(2.5)**
Total	**(10.5)**	**(0.5)**	**(0.2)**	**(11.2)**

4.10 Overall, from a financial planning and budget setting point of view, the analysis above is broadly positive at this stage in that the majority of savings are expected to be delivered. If the assessment of the delivery of savings was that departments will not be able to deliver them at all, the consequences would be more fundamental and the Council would need to consider more emergency measures and mitigating actions to ensure the overall budget can still be reasonably balanced. Therefore, at this stage, it is deemed reasonable that these savings continue to form part of the MTFS.

Review of future budget assumptions

Council Tax

4.11 Council Tax is one of the most significant sources of income for the Council, making up £135.7m (or 44%) of total core funding in 2021/22 rising to £142.5m (or 47%) in 2022/23. In 2021/22, the government increased the referendum threshold limit from 3.99% to 4.99% (excluding the GLA share which is subject to their own decision making).

4.12 As set out when the 2021/22 budget was agreed, there was an implicit assumption from the Ministry of Communities and Local Government (MHCLG), built into the future funding settlements, that all local authorities would increase council tax by up to the referendum limit. As the increase would permanently increase the council tax base income it would also reduce the significant funding pressures in 2021/22, and beyond, and support the unprecedented pressures within social care. In addition, the GLA precept, which makes up around 20% of the overall Council Tax bill and is subject to their own decision making, was increased by 9.5% in 2021/22 to provide additional funding for the Metropolitan police and Transport for London.

4.13 Furthermore, it continues to be acknowledged that continued above inflation rises in Council Tax is difficult for some households and for that reason the Council continues to invest in the Council Tax Support scheme, which provides over £30m of support for around 28,000 households who are financially vulnerable. Nevertheless, this has been the government's financing regime for Local Government since 2010, and the beginning of austerity, with more resources raised locally rather reliance on central government grants.

4.14 The current budget assumptions for 2022/23 have taken a prudent view and assumed that Council Tax will need to increase by 2% in 2022/23 (as opposed to 5% last year) in order for the budget to be balanced, with the additional funding primarily allocated to contain further pressures expected in social care. This is in the context of the Government's much delayed reform of social care. Although the government maintain that reforming social care remains a priority, a clear timeline is urgently needed on when proposals will be brought forward. In addition, the last two spending reviews have only included one off grants and increases in the Council Tax precept as measures to fund additional pressures in social care such as demographic growth and the rising cost of delivering care.

4.15 This year's Spending Review must address the social care funding gap, as well as tackle these additional challenges, and provide long term certainty in the medium term to stabilise the service rather than short term one off funding and increasing or extending the Council Tax precept.

4.16 Government policy on Council Tax in 2022/23 is currently unknown, including the referendum limit, whether the Adult Social Care precept will continue and the GLA strategy, and is expected to be announced as part of Spending Review in the autumn, and then confirmed as part of the Local Government Finance Settlement. Considerations on setting Council Tax will therefore be set out for Cabinet when the draft budget proposals are published in October 2021.

4.17 When assessing the likely impact of COVID-19 on estimated income from council tax contained within the MTFS, there are three significant factors to consider:

- Council Tax Support expenditure;
- Short and long term collection rates; and
- Growth in the tax base.

4.18 Nationally, the number of people on Universal Credit has doubled from 3m to 6m as a result of COVID-19. People who are eligible for Universal Credit are also eligible for some form of Council Tax Support (CTS) from the Council, depending on their level of income. As at the end of May 2021, the number of households receiving CTS was 27,807, of which 8,499 are pensioners, costing the Council £30.4m. This is compared to 26,298 CTS claimants in March 2020 (8,788 pensioners) costing £26.3m. For the avoidance of doubt, an increase in the amount spent on CTS reduces the total amount of council tax income collectable for the Council.

4.19 The judgement to be made with regards to financial planning is the extent to which this level of CTS expenditure is expected to continue. Even at this stage of the pandemic it is still too early to make a reliable judgement, however the data will continue to be monitored and analysed accordingly. There is an argument that as lockdown eases and some residents are able to return to work, the change in circumstances will mean those in receipt of Universal Credit, and likewise CTS, will reduce and therefore bring CTS expenditure to levels that are tolerable within the current risk parameters of the MTFS. Likewise, the long term economic impact could be such that some businesses are unable to survive as government interventions reduce in line with the easing of lockdown measures, resulting in sustained high unemployment levels and CTS expenditure in the medium term. In this scenario, if CTS expenditure is maintained at the levels currently being experienced, it would lead to a budget pressure of £4.1m from 2022/23.

4.20 As part of the 2021/22 Local Government finance settlement, the government announced £670m of one off grant funding in recognition of the increased costs of providing local council tax support. The amount for Brent has been confirmed as £4m and therefore able to contain the additional CTS expenditure currently being experienced for this year only.

4.21 Another factor that could affect Council Tax income is a reduction in the collection rate. Typically, in-year collection for Brent is around 96% and over a longer period of time reaches around 98%, which is built into the MTFS model and is broadly comparable to other London boroughs. The collection rate in

2020/21 was 92%, although this is expected to increase in future years as collection will continue to be attempted. While this reduction resulted in an in-year loss of £8.9m, the government's 75% compensation scheme scheme, hardship grant and the spreading of deficits over three years are intended by government to bring the Collection Fund, the ring fenced accounts for the collection of Council Tax and Business Rates income, back into balance in the next three years.

4.22 As a result of the postponement of normal debt recovery action, it is too early to be able to estimate the short and long term impact on collection. However, the data will continue to be monitored and analysed accordingly as recovery action resumes.

4.23 The calculation of the tax base is one of the technical stages in the process of setting the council tax. Brent, like all Local Authorities, has to work out how much next year's band D council tax should be so that the total tax that will be collected equals the budget required to pay for its services. In effect, the tax base represents the aggregate taxable value of all residential property in Brent. The council tax base is assumed to grow at 1% per year annum (or around 1,000 properties) and contributes nearly 30% to total budgeted council tax income in the MTFS. Therefore, if the rate of new housebuilding in the borough slows down as a result of COVID-19 the total amount of council tax income collected will be less than planned. The extent to which this impact is long term, will mean further savings and expenditure reductions will need to be found to balance the overall budget.

4.24 Data compiled by the Council from a number of sources, including the planning department and directly from developers, shows a number of consented schemes has been slower than previously expected. This general trend is also supported by new Council Tax registrations that are currently awaiting banding by the Valuation Office Agency (VOA). That being said, as lockdown measures ease over the next few months it is expected that housebuilding will continue broadly as planned and therefore the actual tax base growth will be within acceptable tolerances within the current MTFS model.

4.25 Overall, as these assumptions form a critical part of the MTFS, they will continue to be reviewed alongside the latest local economic data and trends to inform the 2022/23 budget development process.

Business Rates

4.26 The Council remains committed to supporting local businesses through the pandemic. Funded by government, the Council has processed a range of reliefs for various businesses across the retail, hospitality, leisure and other sectors. This has significantly reduced the amount of rates paid to the Council with the reduction estimated at £64.6m in 2020/21 and £46.5m in 2021/22 (first quarter only). In addition, the Council has administered direct grants, funded by central government, to local businesses totalling £98.1m across over 13,500 local businesses. The Council continues to engage with the business community to ensure that those eligible businesses have access to this support.

4.27 Irrespective of the range of support provided to businesses by Local Authorities, including the support provided directly by government (job retention scheme, loans, tax deferrals, etc.), it is inevitable that some businesses will be unable to pay their business rates, some businesses may be unable to trade effectively and some may be impacted by a reduction in customer demand. This will lead to an increase in bad debt and a loss of income collected on behalf of the Council, the GLA and government. The amount that was planned to be collected in 2020/21 was £130.5m and, as a result of mandatory reliefs funded by government, the amount that was raised as collectable was £72.6m. As at the 31 March 2021, the amount collected was 87.3%, which is significantly lower than the amount collected in the same period in the prior year, at 98.2%. This is primarily due to payment deferrals that had been granted to support businesses due to the impact of COVID-19, as well as restricted enforcement activity and closure of courts. While this reduction resulted in an in year loss of £74m, the government's 75% compensation scheme, section 31 grants and the spreading of deficits over three years are intended by government to bring the Collection Fund, the ring fenced accounts for the collection of Council Tax and Business Rates income, back into balance in the next three years.

4.28 The Government designated a pan-London business rates pool in 2018/19, which piloted 100% retention in that year, and was revised to pilot 75% retention in 2019/20. For 2020/21 the Government decided not to renew the London pilot, and for London to revert back to the pre-existing 2017/18 67% retention scheme (30% borough share, 37% GLA share, 33% Government share). A voluntary pool was therefore set up with all London Boroughs in 2020/21 with reduced financial benefits from the previous scheme but all the strategic benefits.

4.29 The final position for the 2020/21 London pool is still being finalised, however early modelling suggests the financial impact of COVID-19 has been somewhat contained through government grants and other interventions. As is normal, the Council's accounts are closed based on the latest estimates with the final position being reconciled across all London Boroughs, the GLA and central government over the next 18 months. That being said, there are a number of significant issues that are still being addressed in the pooling calculations. The primary issues are the announcement about COVID-19 Material Change of Circumstances (MCC) appeals, the government's cut to the tax income compensation scheme in May 2021, and the remaining uncertainty around the interaction between the compensation scheme and the safety net and levy calculation.

4.30 In December 2020, there were a number of reports in the press relating to a business rates rebate for a wide variety of sectors (offices retail, airports, stadiums, car parks and factories) under a MCC due to COVID-19. Analysis from London Councils suggest reductions could range between 20% and 70%, which would be severely damaging for the business rates system. There is also a lack of clarity on when adjustments would apply and for how long.

4.31 As part of the budget setting period for 2021/22 authorities were required to submit an NNDR1 return in February 2021 to provide an estimate of income from business rates after accounting for assumptions on successful business rates appeals. As a result of the lack of information on the impact of MCC's, London Boroughs wrote to MHCLG to inform them that if the provisions made due to MCC were provided for it could have far reaching and unintended consequences. In fact, given the potential impact, it could be a threat to the future operation of the entire Business Rate system.

4.32 On 25 March 2021 an announcement was made, indicating that the government intended to legislate to remove the MCC risk. In practice, secondary legislation was made that day to deal with the issue prospectively. This instructed the VOA to disregard the government's pandemic response and associated regulation and guidance when assessing valuations. For the retrospective issue, primary legislation is required, and the government indicated that this would be made "when parliamentary time allows". Rating agents and local authorities are continuing to assess the effectiveness of the secondary legislation as well as to predict what primary legislation might be made (if any).

4.33 In November 2020, the Spending Review confirmed that the amount of losses covered would be 75%, and at the Provisional Settlement in December 2020 a methodology was laid out in a consultative policy paper. However, during the first week of May, the government published a compensation calculation which significantly reduced the compensation for most authorities, and therefore the cost of the scheme to the government.

4.34 It was agreed in November 2020 that the London pool would not continue in 2021/22 due to the growing concerns around the affordability of contributions that may be required from smaller members to support others below their safety net. This means that for 2021/22 the full impact of any adverse collection levels will have to be contained within Brent's own resources.

4.35 In summary, the business rates retention scheme, which was an extremely complex scheme prior to COVID-19, has now become even more complex and substantially more volatile. As a result, Business Rates income, which makes up around 30% of total core funding for the Council, has now become the single most significant risk in the MTFS and the Council's ability to maintain financial control. The business rates regime for 2022/23 is currently unknown and will not be known until the Local Government Finance Settlement, expected in December 2021.

4.36 Further analysis will need to be undertaken over the summer as part of the MTFS refresh process at which point the overall pool position will be clear and the legislative uncertainty discussed above is likely to be resolved. However, it is important to note the impact on medium term financial planning. Authorities with significant business rates income budgets would need to consider reducing them significantly with the consequent need to either draw funds from reserves or look for additional savings.

Growth assumptions / Cost pressures

4.37 Managing ongoing demand-led pressures remains a key aspect of the MTFS. The table below sets out the existing annual growth assumptions, or estimated increases in unavoidable expenditure, that are built in to the MTFS, for example contract inflation, pay inflation, meeting the cost of providing existing services for a growing population, etc. For the avoidance of doubt, these expenditure assumptions represent the annual costs, all else being equal, that would have to be incurred just to stand still.

Table 3: Existing Growth / Cost Pressures.

Assumption	**Extra cost per annum (£m)**	**Description**
Demography	3.5	Estimated annual cost of providing the same services to a growing population.
Payroll	3.0	Based on a 2% pay award and new pay spines.
London Living Wage	2.0	Assumed average annual cost of making more contracts LLW compliant.
Contracts	3.0	Primarily based known contractual commitments.
Transport	0.8	Transporting children with Special Educational Needs.
Technical	1.0	Pensions, levies (e.g. West London Waste Authority) and other technical items.
Capital financing	0.2	Interest and debt repayment costs for the capital programme.
Total Growth	**13.5**	

4.38 It is clear that the impact of COVID-19 will be felt beyond 2021/22 and will have a significant legacy impact on the MTFS making it highly unlikely that a number of budgets, either income or expenditure, will return to their pre COVID-19 levels. As part of the 2021/22 budget setting process and due to the unprecedented financial uncertainty, the new additional growth pressures were modelled using three scenario cases set out in the table below. Predicting the future is inherently risky, so it is prudent to explore as many different cases of what could happen as is reasonably possible under the current circumstances. While the scenarios modelled are unique to each category of growth, including the assumptions that underpin those scenarios, the process of examining and evaluating possible impacts across different budgets is a key part of the decision making process. Overall, the range of possible outcomes was estimated between £5m and £20m, and the current working estimate is that £13m (‘central case’) of additional growth will be required to manage the impact of COVID-19 in 2021/22. To date, and as referenced in the 2021 Q1 Financial

Forecast report also on this agenda, the central case appears to be a reasonable assumption.

Table 4: MTFS Scenario Model.

Description	Best case (£m)	Central case (£m)	Worst case (£m)	Comment
PPE	0.5	1.0	2.0	Likely increase in the cost of care, whether the Council funds it directly or care homes source their own.
Homelessness	1.0	1.5	2.0	A continuation of pandemic response measures will require additional resources for managing homelessness, which will be further impacted by the worsening economic situation.
Housing Needs rent	0	1.0	1.5	Estimate based on current levels of collection and increase in bad debts.
Children's Social Care	0.5	1.0	1.5	Pressures arising within the Children and Young People with Disabilities (0-25) care at home and direct payment budgets.
Transport	0	0.5	1.5	Pressure arising due to social distancing measures.
Council Tax Support	1.0	2.0	3.0	Increase in working age caseloads.
Income generation	2.0	5.0	7.0	Income generated in the Regeneration & Environment department across various lines of business. Advertising and sponsorship income, conference and events income, Registrars and Nationality income and other traded services are affected.
Allowance for uncertainty	0	1.0	1.5	Further slippage of existing savings plans or new emerging pressures.
Total pressures	**5.0**	**13.0**	**20.0**	

4.39 Forecasting growth under normal circumstances is challenging and the task has only increased as a result of COVID-19. Scenario modelling of assumptions continues to be undertaken across all income and expenditure budgets, in particular demand led services.

4.40 In addition, as the expected easing of restrictions takes place later this year, it is reasonable to assume that some of the growth assumptions can move from the central case to more towards the best case. These growth assumptions will be further reviewed over the summer as part of the 2022/23 budget development process in order to assess the extent to which the ongoing impact of COVID-19 changes these assumptions.

5.0 Proposed budget setting process for 2022/23

5.1 In February 2021 Council agreed the budget for 2021/22 and the business plans for 2022/23. In February 2022 it would be open to Council, subject to all the usual planning uncertainties and caveats, simply to re-confirm the proposals set out a year earlier, which would result in a balanced budget for the 2022/23 financial year. In addition, a range of savings proposals were agreed of £8.5m in 2021/22 and £2.7m in 2022/23 meaning that, subject to consultation and any other material changes to circumstances, no new savings proposals need to be developed to achieve a balanced budget in 2022/23. For the avoidance of doubt, all of the proposals were set out for Council in February 2021, together with the results of the statutory consultation, scrutiny and equalities processes carried out leading up to that.

5.2 Therefore, the proposed budget setting process following this Cabinet meeting is as follows:

- Cabinet October 2021. This report will present the budget proposals to be formally consulted on to set the 2021/22 budget;
- The proposals, together with any changes made by Cabinet, will form the basis of consultation between October 2021 and January 2022 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 2021; and
- After the statutory processes of consultation, scrutiny and equalities have concluded, a draft budget will presented to Cabinet to recommend a final budget and council tax to the February 2022 Council meeting.

6.0 Capital programme

6.1 In 2020/21 the Council spent £171.7m, this equates to 76% of the approved capital programme budget for that year and was underspent to budget by £53.2m or 24% as shown in Table 5 below.

Table 5 – 2020/21 Outturn Position

2020/21 Final Outturn Position							
Portfolio / Programme	**Budget as at Feb 2021**	**Budget Changes since Feb 2021**	**Final Budget 2020/21**	**Outturn**	**Over / (Under) Spend to Budget**	**Over / (Under) spend split**	
						2020/21 Slippage C/FWD	**Underspend for Repurpose and Removal**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Corporate Landlord	12.76	(0.14)	12.62	10.16	(2.46)	(2.19)	(0.28)
HCIB - GF	43.72	2.98	46.69	35.80	(10.89)	(10.89)	0.00
HCIB - HRA	68.64	0.09	68.73	59.80	(8.93)	(3.21)	(5.72)
PRS I4B	19.38	20.30	39.68	20.90	(18.78)	(18.78)	0.00
Public Realm	25.22	0.25	25.47	21.56	(3.91)	(1.08)	(2.83)
Regeneration	8.42	(0.32)	8.10	6.90	(1.20)	(0.75)	(0.45)
Schools	14.38	0.46	14.83	9.38	(5.45)	(5.45)	0.00
South Kilburn	8.13	0.00	8.13	6.71	(1.42)	(1.42)	0.00
St Raphael's	0.64	0.01	0.65	0.48	(0.17)	(0.17)	0.00
Grand Total	**201.28**	**23.62**	**224.90**	**171.68**	**(53.22)**	**(43.93)**	**(9.28)**

2020/21 Capital Budget Position

6.2 The 2020/21 capital programme had a final revised budget of £224.90m at the end of the year. The reconciliation of £23.62m budget changes since the budget of £201.28m that was approved at full Council in February 2021 and the final budget are summarised in Table 6 below.

Table 6 - Budget Adjustments Breakdown 2020/21

Budget Adjustments Breakdown 2020/21	
	2020/21
Budget changes since Feb 21	**£m**
Cabinet Approved purchase of 83 Wembley Park Drive	2.90
The budget adjusted on the Council side to match I4B business plan 2021/22	20.30
Liveable Neighbourhoods Removed	-0.20
Revenue Contribution for Oracle Cloud	0.08
Reprofiling budget for Oracle Cloud, bringing forward budget	0.28
On Side Youth Zone	0.07

NCIL Landscaping Projects	0.19
Total	**23.62**

6.3 The 2020/21 outturn position was lower than the revised budget by £53.22m. Further details on the outturn position are contained within the Outturn Report for 2020/21. It is proposed that this sum is re-profiled into 2021/22 and future years, except for those schemes that reached completion in 2020/21.

6.4 As part of 2021/22 budget setting, there was a forecasted slippage of £20.30m in I4b and budgets re-profiled over 3 years on Council side to match the I4b business plan.

6.5 Table 7 shows the impact of the proposed 2020/21 carry forwards and other budget adjustments.

Table 7 - Budget Adjustments Breakdown 2021/22 to 2025/26

Budget Adjustments Breakdown 2021/22 to 2025/26						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
2020/21 Underspend	53.22					53.22
Post April Changes						
Roe Green Infant School Kitchen and Improvement Works- Basic Needs	0.73					0.73
Public Sector Decarbonisation Scheme	3.23					3.23
NWCC SCIL Approval	4.90					4.90
Re-profiling						
The budget adjusted on Council side to match I4B budget over 3 years.	(18.78)					(18.78)
South Kilburn Re-profiling	0.89	(0.40)	(0.47)		(0.02)	0.00
Budget Changes to be agreed						
All Additions						
Increase DFG allocation	0.63					0.63
Increase budget for Civic Centre	0.03					0.03

Increase budget for WFH Equipment	0.11					0.11
Family Wellbeing Centres	0.36					
All Removals						
Removal of Liveable Neighbourhoods Programme	(0.45)	(0.45)				(0.90)
Removal of 2020/21 Oracle Cloud slippage	(0.28)					(0.28)
Removal of 2020/21 Major Works slippage	(3.91)					(3.91)
Removal of indicative budgets that are yet to be confirmed including TfL LIP	(2.83)					(2.83)
Re-purpose of settlement case for JAW sites	(1.80)					(1.80)
Total	**36.06**	**(0.85)**	**(0.47)**	**0.00**	**(0.02)**	**34.35**

The budget adjustments set out in Table 6 include:

6.6 £53.22m slippage and underspend from 2020/21 set out in Table 5 above.

6.7 Post April 2021 changes to the budget

- £0.54m Basic Need Allocation and £0.19m S106 funding for Roe Green Infant School Kitchen and Improvement Works.
- £3.23m Grant funding from Department for Business, Energy and Industrial Strategy for the Public Sector Decarbonisation Scheme.
- £4.9m SCIL approval for NWCC infrastructure works.

6.8 Budget re-profiling

- The budget setting already assumed slippage as explained in 6.4, so £18.78m has been adjusted from 2021/22 budget to match 3 years budget on i4b business plan.

- South Kilburn re-profiling to reflect acquisition and design schedules.

6.9 Budget additions since April 21

- 2021/22 DFG grant allocation was higher than budgeted.

- Budget increases of £0.11m for WFH Equipment and £0.03m for Civic Centre to offset slight overspend and match the grant funding and contribution received.

- Addition of works for the Family Wellbeing Centres.

6.10 Budget underspend removed and repurposed

- Removal of the Liveable Neighbourhoods Programme (£0.45m) as this was dependent on receiving funding from TFL.

- Removal of budget slippage of £0.28m from Oracle Cloud as this was duplicated when brought forward.

- Removal of the underspend of £3.91m for 2020/21 major works.

- Removal of indicative budgets of £2.83 that are yet to be confirmed primarily the annual LIP funding for 2021/22, as we still are awaiting TFL's confirmation.

- Repurpose of £1.8m underspend driven by a lower settlement claim on the JAW sites.

The revised budget position for 2021/22 to 2025/26 is summarised in Table 8 below.

Table 8 – Revised Capital Programme Budget (2021/22 to 2025/26)

Capital Programme Revised Budget 2021/22 to 2025/26						
Board	**2021/22 Revised Budget £m**	**2022/23 Revised Budget £m**	**2023/24 Approved Budget £m**	**2024/25 Approved Budget £m**	**2025/26 Approved Budget £m**	**Total 2021/22 to 2025/26 £m**
Corporate Landlord	11.83	3.71	51.43	19.00	0.00	**85.98**
HCIB - GF	75.93	43.35	22.30	53.62	0.00	**195.20**
HCIB - HRA	67.92	26.39	16.04	0.00	0.00	**110.36**
PRS I4B	24.40	24.31	18.60	0.00	0.00	**67.30**
Public Realm	14.99	5.94	5.70	2.15	0.00	**28.77**
Regeneration	37.35	18.16	1.16	0.00	0.00	**56.68**
Schools	32.33	17.14	0.00	0.00	0.00	**49.46**
South Kilburn	30.80	17.92	9.74	4.20	14.85	**77.51**
St Raphael's	1.47	0.01	0.00	0.00	0.00	**1.48**
Total	**297.02**	**156.93**	**124.97**	**78.97**	**14.85**	**672.74**
Approved Feb 21	260.96	157.78	125.44	78.97	14.87	638.02
Budget Adjustments	**36.06**	**(0.85)**	**(0.47)**	**0.00**	**(0.02)**	**34.72**

Capital Pipeline

6.11 The programme agreed by Council in February 2021 included £300.3m for pipeline schemes. The capital pipeline is a list of potential future investment projects identified by each of the sub-boards. In evaluating the investment pipeline proposals several factors are considered. These include statutory requirements, demonstrable linkages to corporate priorities, with the ability for proposals to generate revenue savings and, to a slightly lesser extent, their potential to generate future capital receipts or other financial returns.

6.12 Schemes will be brought forward once further refined and subject to detailed business cases, they will be promoted to the main programme following Cabinet approval where necessary.

6.13 Since February a number of proposals totalling £2.8m have been removed as decisions have been made not to take the schemes forward. Two South Kilburn schemes have been combined, ERSK Cap bid 9- Open Spaces (ref PL013) and ERSK Cap bid 7- Infrastructure (streets/public realm)(Carlton Vale Boulevard) (ref PL019). The current total of the pipeline schemes is £297.5m.

7.0 Housing Revenue Account

7.1 The Housing Revenue Account (HRA) is a ring-fenced account which contains the income and expenditure relating to the Council's landlord duties in respect of approximately 12,000 dwellings including those held by leaseholders.

7.2 The HRA budget is set each year in the context of the 30-year business plan. The business plan is reviewed annually allowing for horizon scanning and the identification and mitigation of risks in the short, medium and long term. Early identification of risks enables planning and implementation of mitigations to ensure the HRA can continue to remain financially secure and deliver on its commitments:

- Expand and accelerate the development of new council homes;
- Continue to maintain and improve existing council homes; and
- Transformation and continuous improvement of front line services to tenants and leaseholders.

7.3 Since 2020/21, and for the following four years, the Council has the power to increase rents annually up to a maximum of CPI plus 1%. In 2021/22, the average rent currently sits at £118.05 per week, an increase of 1.5% when compared to the previous year. A similar increase is anticipated for 2022/23, which would result in an average rent per week of £119.82 and give the potential to raise an additional £0.7m per annum for the next 3 years.

7.4 HRA rent setting needs to be considered in the context of the ring-fence and the 30-year business plan. A return to the CPI plus 1% model helps to provide some stability and certainty over planned investment in the stock, service improvement and new development, at least in the medium term. A £0.7m increase in rent has the effect of an additional £21m investment in the HRA over a 30-year period.

7.5 After April 2025, the implications of future Government regulated rent policy remain uncertain. Medium-term investment plans must be approached cautiously and allow for flexibility. The rate of inflation for expenditure is currently higher than that of rental income. To mitigate against resulting budget deficits, annual savings targets have been incorporated into medium-term financial plans. In addition, longer-term financial implications arising as a result of COVID-19, and the impact on rent collection rates and bad debts in particular, remain a risk area for the HRA budget. It is also important to note that despite the pressures experienced by the HRA in 2020/21, and it continues to experience, as a result of the COVID-19 outbreak, the HRA received no emergency government funding.

7.6 The influences outlined above are continuously monitored and a reappraisal of HRA budget priorities will be considered if necessary. As part of the budget setting process, the HRA budget will be subject to a separate consultation process.

8.0 Schools and Dedicated Schools Grant

8.1 During the COVID-19 pandemic, schools continued to receive funding as planned but incurred exceptional costs and were also impacted by loss of income from activities such as hiring out facilities. The DfE provided one-off support to schools for these exceptional costs which were increased premises related costs; support for free school meals (FSM); and additional cleaning. Catch up premium funding was also provided to schools to help make up for lost teaching time for all pupils with primary and secondary schools receiving £80 per pupil and special schools receiving £240 per pupil. However the long term implications of these additional costs and loss of income could pose a risk to the Schools budgets.

8.2 There are also financial pressures due to rising costs. Staffing costs have risen due to minimum wage increases, national insurance changes, pension contributions and auto enrolment. In addition, there are also the more general inflationary cost pressures on good and services.

8.3 Another challenge faced by some primary schools is falling numbers of pupils in their reception and key stage 1 year groups which equated to a 2% reduction compared to 2020/21, and this directly reduces the funding allocated to them. These schools will need to react when planning their budgets and restructure their staffing capacity accordingly to match their income and pupil numbers. There is a financial risk that smaller schools with reducing numbers of pupils will result in more schools being in deficit.

8.4 School balances increased in 2020/21 following decreases year on year since 2016/17 and this increase in balances is partly due to the impact of the partial closures of schools during the pandemic; and the carry forward of catch up premium funding received as schools are able to carry forward the funding to future academic years as stipulated by the DfE guidance. Overall, balances have increased by £4.5m from £13.7m in 2019/20 to £18.2m in 2020/21. Six schools ended the financial year 2020/21 in deficit an improvement from the previous year's number of seven. The funding and expenditure pressures will persist, and are likely to require schools to take action to balance their budgets. Of the six schools in deficit, the majority are expected to set a balanced budget in 2021/22, whilst a small number may require a licensed deficit agreement to recover the deficit over a three year period. The schools in deficit will be monitored closely throughout the year.

8.5 Schools are required to submit three year budgets annually and, in planning this, are starting to restructure staffing establishments where necessary, look for commercial and income generating opportunities, and for opportunities to work together on procurement.

8.6 The overall Brent DSG deficit has increased from £4.9m at the end of 2019/20 to £10.5m at the end of 2020/21. This position is similar to most London boroughs who are also forecast to be in deficit positions at the end 2020/21. In line with the School and Early Years Finance (England) Regulations 2020, any DSG deficit balance will be ring-fenced, held within the local authority's overall DSG and carried forward to be funded from future years funding and/or recovery plans agreed with the DfE.

8.7 The pressure in the DSG is mainly against the High Needs Block, as it is largely demand led and the number of children requiring support in both mainstream schools and special provisions is increasing. The main cost driver in the High Needs Block is the rise in demand for Education, Health and Care plans (EHCPs) and this rise has been experienced nationally. The table below reflects the 5 year trend of EHCP growth in Brent.

Table 1	**January**	**January**	**January**	**January**	**January**
Financial Year	**2017**	**2018**	**2019**	**2020**	**2021**
Number of EHCP	1,960	2,076	2,173	2,426	2,805
Year on Year % Increase	9%	6%	5%	12%	16%

8.8 In 2021/22 the High Needs Block received a £6m increase and a £1.2m transfer from the Schools Block of the DSG but the increase will not reduce the deficit, which will be carried forward into 2022/23. A combination of longer-term recovery actions include managing demand by applying a graduated approach to reduce the need for an EHCP, improving sufficiency of places by establishing more SEND provision in the borough, improved financial management and anticipated government funding increases will help to reduce the deficit. The risk remains however that the number of EHCPs will continue to rise.

9.0 Overall summary and conclusion

9.1 In February 2021, Council agreed a Medium Term Financial Strategy (MTFS) that sought to provide the financial framework for the years 2021/22 to 2022/23. The programme, developed through a combination of effective financial management and cost control and more innovative approaches to investment and demand management, set out the delivery of £11.2m of savings (profiled £8.5m in 2021/22 and £2.7m in 2022/23) in order to deliver balanced budgets over the two year period. This followed a period of 10 years where, as a result of significant reductions in government funding and the challenges posed by new legislation, the Council had been obliged to make an unprecedented £185m of savings, despite an increase in demand for key services.

9.2 As government funding has been cut the population has grown and this has been particularly pronounced in the very oldest and very youngest age groups, which are statistically most likely to require services from the Council, thus adding to the cost pressures. Coupled with the impact of legislative change and uncertainty on the outcome of proposed reforms to local government funding, this has created substantial financial pressures.

9.3 Therefore, the Council was already operating in a significantly challenging financial environment prior to the outbreak of COVID-19.

9.4 The COVID-19 pandemic has created a significant shock to the economy and resulted in significant unplanned expenditure and income losses. Although the immediate impact was felt in 2020/21, it is clear that there will be a long term impact on the Council's financial overall position and its ability to deliver a balanced budget will continue to be challenging.

9.5 While it is absolutely vital to ensure local communities are supported through this crisis, the response comes at a significant cost, which is putting severe strain on all local authorities.

9.6 At the last update of the MTFS the Council's budget approach has been very much on delivering efficiencies in order to deliver a balanced budget in the face of government funding reductions. As part of this, the Council has been successful in delivering a savings programme without significant reductions in service provision or adversely impacting on the most vulnerable. The MTFS has also been successful in providing a framework that has allowed the Council to adequately fund growth pressures resulting from both demographic pressures and the changing needs of its vulnerable residents, and investing in the local recovery.

9.7 Looking beyond 2021/22, reforms to Local Government funding (the fair funding review and business rates reforms) are unlikely to be implemented next year and was somewhat inevitable given the reduced capacity of government to deliver these complex reforms. A welcome approach would be similar approach to last year's spending round, which effectively confirmed the settlement early in September, and rolled forward the existing settlement with an increase in funding and some additional targeted grants. Beyond additional emergency funding packages, the next and bigger issue than fair funding is the quantum of resources needed by the sector to compensate for the ongoing shifts in councils' underlying cost and income pressures.

9.8 Focussing on the immediate need to set a balanced budget for 2022/23, the core estimates that drive the Council's budget position 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 in October 2021.

10.0 Financial Implications

10.1 The financial implications are set out throughout the report.

11.0 Legal Implications

11.1 Standing Order 24 sets out the process that applies within the Council for developing budget and capital proposals for 2022/23. 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.

12.0 Equality Implications

12.1 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.

12.2 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.

13.0 Consultation with Ward Members and Stakeholders

13.1 The detailed approach to the statutory consultation process will be set out as part of the budget report to be presented to Cabinet in October 2021.

14.0 Human Resources

14.1 Not applicable.

<u>Report sign off:</u>

Minesh Patel
Director of Finance