Brent	**Cabinet** 6 December 2021
	Report from the Director of Finance

Draft Budget 2022/23

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt:	Open
No. of Appendices:	Two: Appendix A: Savings Delivery Tracker Appendix B: HRA Business Plan
Background Papers:	N/A
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1.0 Purpose of the Report

1.1 The purpose of this report is to set out the Council's budget proposals for 2022/23. It also provides a general update on the Council's overall financial position, including an assessment of the Chancellor of the Exchequer's Autumn Budget of 27 October 2021.

1.2 Subject to the results of consultation and scrutiny, it is envisaged that the budget proposals set out in this report would then form the basis of the budget to be agreed at the Full Council meeting of February 2022. For the avoidance of doubt, all of the proposals included in this report were set out for Council in February 2021, together with the results of the consultation carried out leading up to that.

1.3 Brent, like most well-run local authorities, seeks to avoid making substantial new proposals in the last budget of any Administration, as it will be for whatever Councillors are elected in May 2022 to determine longer-term financial policy. Therefore, no new budget proposals are recommended by way of this report and the position for 2022/23 is still broadly in line with that estimated in February 2021 and updated since.

1.4 This report renews the MTFS, which is the Council's overarching financial planning document. The MTFS contains forecasts for the financial position of the Council's General Fund revenue budget, as well as providing a framework within which financial planning is undertaken for the Housing Revenue Account, the Dedicated Schools Grant and the Capital Programme. The report also asks Cabinet to take decisions necessary to enable the council to participate in a mini Business Rates Pool should this be in the council's interests.

1.5 It should be recognised, however, that forecasting over the medium term has been, and continues to be, extremely difficult. There is a high level of uncertainty over the medium term due to the delays in funding reforms, the continuing impacts of COVID-19 on residents and businesses in the borough and the impact of BREXIT. The significance of the financial challenge cannot be underestimated, however the measures outlined in this report aim to ensure that the Council continues to operate in a financially sustainable and resilient way.

1.6 Agreeing the proposals in this report, all of which were consulted on and agreed in February 2021 will enable the council to set a balanced budget in 2022/23, in accordance with the statutory obligations. At this stage, however, Cabinet is merely being asked to note the position so that further consultation can be concluded, prior to a formal budget being recommended to the 24 February 2022 Council meeting. Aside from the usual updating of and adjustments to various technical assumptions the key features of this budget would be:

- A council tax increase of 3%, making a Band D council tax of £1,419.48 (for the Brent element). The GLA precept, which typically makes up 20% of the overall bill, is currently unknown and is subject to their own decision making.

- Budget savings proposals (all of which were considered by Council in February 2021) with an aggregate value of £2.7m, as summarised in Appendix A.

1.7 The process following this Cabinet meeting is: -

- Proposals, together with any changes made by Cabinet, to form the basis of consultation between December 2021 and February 2022 with local residents, businesses and other key stakeholders;

- Resources & Public Realm Scrutiny Committee to review the budget proposals and report accordingly;

- General Purposes Committee, in December 2021, will review the calculation of the Council Tax base; and

- After consultation, a budget report will be presented for Cabinet to recommend a final budget and Council Tax to the February 2022 Council meeting.

2.0 Recommendation(s)

2.1 That Cabinet notes the overall financial position.

2.2 That Cabinet endorses the budget proposals for 2022/23 that were previously agreed at the Council meeting of 22 February 2021, as set out in Appendix A.

2.3 That Cabinet agrees to consult on a Council Tax increase of 3% in 2022/23.

2.4 That Cabinet agree to participate in a sub London Business Rates Pool in 2022/23 and delegate authority to the Director of Finance to enter into a Memorandum of Understanding with the participating authorities as may be necessary to implement and/or regulate the pool.

2.5 That Cabinet delegate authority to the Director of Finance to agree to participate in such pools in subsequent years (in consultation with the lead member) and to enter into Memorandum of Understandings in respect of any such subsequent pools.

2.6 That Cabinet notes the position with regard to the funding for Schools and the Dedicated Schools Grant, as set out in seven of this report.

2.7 That Cabinet agrees to consult on a rent increase of 4.1% (CPI + 1%) for the 2022/23 Housing Revenue Account budget, as set out in section eight and Appendix B.

2.8 That Cabinet notes the position with regard to the Capital programme, as set out in section nine.

3.0 Strategic Financial Overview

Financial Context

3.1 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.

3.2 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.

3.3 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 impact of COVID-19 is not fully known or how the pandemic will play out 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.

3.4 In July and October 2021, Cabinet received updates on the Council's overall financial position. Firstly, the Financial Outturn 2020/21 report set 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. Secondly, the Q2 Financial Forecast report set 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. Finally, the 2021/22 budget provided a framework to invest in broader ambitions and long term priorities. This includes:

- Delivering the refocused Borough Plan;

- £1m of recurring funding for long term priorities, including the Climate Emergency, Tackling Poverty and Tackling inequality; and

- £17m to facilitate the delivery of initiatives 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.

Comprehensive Spending Review and Autumn Budget 2021

3.5 On 27 October 2021 the Chancellor of the Exchequer, Rishi Sunak, delivered Spending Review 2021 and the Autumn Budget. The latter set out the Governments' taxation and public expenditure plans for the year ahead, and Spending Review confirmed resource and capital budgets for the three years 2022/23 to 2024/25. The following paragraphs provide a summary of the main headlines and announcements of interest with respect to Local Government finance.

3.6 This Spending Review announced a £40 billion increase in taxes, which coupled with an improved economic outlook, have allowed for real increases in day to day spending. Local government has been promised a headline 3.0% average real-terms increase in core spending power each year. That includes £3.6bn to fund social care reforms, such as the implementation of the cap on personal care costs (£86,000 lifetime cap) and the changes to the means test (free care for those with assets less than £20,000).

3.7 Overall, the headline announcement is that core spending power will increase by 3% each year. However, this assumes that all Council's will increase Council Tax by the maximum amount allowable of 3% without triggering a referendum. In addition, much of the new money is tied to social care reforms, meaning other services will benefit less. Removing the funding for the social care reforms, the increase is actually 1.8% compared to 3.3% for the average government department. Nevertheless, while the additional funding announced for Local Government is welcome, the precise outcome for individual authorities will not be known until the Provisional Local Government Finance Settlement, usually announced in mid-December.

3.8 Likewise, it is currently unknown whether the new grant funding will be sufficient to cover the cost of reforms to social care, for example the increase in employers National Insurance Contributions (for both the Council's pay bill and supplier costs), the cost of the cap on personal care costs and inflationary pressures expected in the social care market. Early modelling suggests the additional cost of increasing National Insurance Contributions alone could be in the region of £2m per annum. There will no doubt be a long queue of claims on this tranche of funding. Any shortfall in social care funding will, therefore, mean that Council Tax will end up taking the strain. This may mean that Brent, like all other local authorities, will need to continue to plan with little or no funding certainty.

3.9 In addition, the additional grant funding is front-loaded and then frozen thereafter. While this decision seems reasonable given any COVID-19 related pressures are also likely to be front loaded, it will mean relying on local taxes to meet spending pressures by 2024/25. Whether the overall funding increases are enough to keep pace with the rising demands over the medium term remains to be seen and will depend on how inflation affects the Council's costs. And with the Office for Budget Responsibility predicting inflation could rise between 4.4% and 5.4% next year, which would be the highest rate seen in the UK for three decades, will create further financial pressures, particularly for social care where the cost of placements presents a significant financial risk.

3.10 The Spending Review also confirmed that there will be no separate compensation for Council Tax and Business Rates losses as a result of COVID-19 or other support generally for managing the ongoing financial impact of COVID-19, such as the rising cost of the Council Tax Support scheme. The consequences of these decisions are discussed further in section four of this report.

3.11 In addition, the Spending Review did not address a number of long-standing funding issues for Local Government that remain unresolved which include:

- Details and a revised timeline of the 'Fair Funding Review - relative review of needs and resources'.
- Business Rates retention reset and Business Rates revaluation.

3.12 It is reasonable to assume that these reforms are likely to be further delayed to 2023/24 at the earliest, some four years later than originally planned. These reforms are expected to fundamentally change how, and to what level, all Local Authorities are to be funded. Therefore, despite a three year spending review, there remains long term funding uncertainty beyond 2022/23.

Administration Priorities

3.13 The budget process is designed to ensure that it is priority led so that resources are aligned with council priorities and statutory responsibilities. A 4 year Borough Plan (2023-2027) is due to be developed in 2022. This gives us the opportunity to refresh our vision and ambitions and to show how we will work with our communities over the next 4 years to deliver them.

3.14 The Borough Plan is the key strategic document that sets out what the Council aims to achieve (its key priorities), how the council and its partners will work to deliver these and how they link to frontline delivery. The current plan is based on five priority areas agreed in 2019 as being of fundamental importance to Brent and its people:

- Every Opportunity to Succeed
- A Future Built for Everyone, An Economy Fit for All
- A Cleaner More Considerate Brent
- A Borough where we can all feel safe, secure, happy and healthy
- Strong Foundations

3.15 These are supported by actions (refocused in 2021), including activity to tackle key cross-cutting areas such as homelessness, reducing health inequalities, providing youth opportunities, the climate and ecological emergency and delivering employment and training support.

Current financial position

3.16 Like all Local Authorities, dealing with the impact of COVID-19 continues in 2021/22 with major spending pressures and income losses across the Council. There are costs arising from a number of new functions such as providing additional support to vulnerable residents with supplementary care needs as well as providing specific controls to protect the general public, granting short term financial support to households and businesses to enable them to continue through this period. At the same time there has been a significant reduction in income received, particularly in relation to sales, fees, charges for services provided to the community were facilities are being under-utilised through reduced demand.

3.17 As reported to Cabinet in October 2021, it is currently expected that growth provided to services and additional government funding will be sufficient to accommodate the additional costs and losses of income arising as a result of COVID-19. This is inclusive of additional expenditure pressures as a result of the outbreak (e.g. additional front line care and well-being for staff, emergency accommodation for rough sleepers and the homeless, testing in the community, additional support for residents that are affected by COVID-19, etc.), loss of income (e.g. fees and charges from planning and building control, parking, rents, leisure services, venue hires, etc.) and slippage of 2021/22 savings plans.

3.18 Since the start the financial year local government has received over £3 billion in general non-ring fenced funding, with Brent's share being £17m. In addition, further funding is being provided through a sales, fees and charges compensation scheme. Under the scheme, local authorities absorb losses up to 5% of their planned 2020/21 sales, fees and charges income, with government compensating them for 75% of losses thereafter. However, the scheme is only available for losses incurred in the first quarter of the year and does not cover all forms of lost income, for example commercial or residential rents. The Council estimates that approximately £2m of funding will be received through the scheme, albeit this has not been confirmed by government.

3.19 Further details of these pressures, risks and actions being taken to manage the 2021/22 financial position were reported to Cabinet in October 2021 in the Q2 Financial Report. The 2021/22 budget was set to accommodate additional costs and losses of income arising as a result of the COVID-19 pandemic. At present it is expected that these pressures can be contained within the growth provided to service areas.

3.20 Clearly, the government funding received thus far has gone some way to relieve immediate financial pressures. Governments' commitment to give all Councils the resources they need to support their residents and businesses through this pandemic cannot waver.

4.0 Review of Key Budget Assumptions

Review of 2020/21 – 2022/23 savings plans

4.1 The current MTFS contains total savings of £11.2m, profiled £8.5m in 2021/22 and £2.7m in 2022/23. Of these savings, £6.1m were agreed in February 2020 and £5.1m in February 2021. The latest savings delivery tracker in Appendix A shows that the Council is on track to deliver £8.5m of these savings, with £0.8m delayed. Overall, from a financial planning and budget setting point of view, the latest forecast on savings is broadly positive at this stage of the financial year, in that the majority of savings are on track to be delivered and mitigating actions have been put in place for those savings identified as delayed. This suggests that, other than re-profiling between years, the savings previously agreed should continue to be embedded in the MTFS. Further details are set out in Appendix A.

Departmental pressures

4.2 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. These expenditure assumptions have also been reviewed and a summary of these growth and cost pressures are shown in the table below.

Table 1: 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	Assumed 2.5% pay settlement and new pay spines.
London Living Wage	2.0	Assumed average annual cost of making more contracts LLW compliant.
Contracts	3.0	Primarily based on 2% inflation and known contractual commitments.
Transport	0.8	Transporting children with Special Educational Needs.
Technical	1.4	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	**13.9**	

4.3 Most of these growth assumptions have largely been in place for over six years, and have been regularly reviewed and judged to be reasonable at each budget planning cycle. At this stage, the only change that is being considered is to the inflation assumption. The Office for Budget Responsibility has forecast that inflation could rise to between 4% and 5% next year. However, indexation on most of the Council's major contracts were set at the previous September's Consumer Price Index (CPI), which was 3.1%. The most significant spikes have been in the construction sector over recent months with supply chain challenges possibly caused by both COVID-19 and BREXIT, where the impact is largely within the Council's Capital Program. Overall, despite the varying impact, an increase in the cost of goods and services will undoubtedly put pressures on Council services to keep within budget. Despite this forecast, the Bank of England voted to keep interest rates unchanged at their November meeting citing that they were not yet confident that the risks associated with higher inflation are greater than the risk that a rate rise too fast would cause an unnecessary slowdown in growth and employment. Further work is being conducted on the impact of rising inflation on all Council services and contracts. For planning purposes the 2022/23 budget for inflationary pressures may need to increase by £1m. At this stage, it is expected that this increase can be contained within the overall growth built into the 2022/23 budget.

4.4 Last November, the government announced that all but the NHS and the lowest-paid public sector workers would have their pay frozen for a year, in response to private sector hours and wages falling during the pandemic. The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. While the pay award for Local Government is unlikely to be known when the 2022/23 budget is agreed, the MTFS can accommodate an increase of around 2.5% based on the current budgeted establishment. This will remain as the working assumption until negotiations are further advanced.

4.5 As part of the 2021/22 budget setting process significant growth was built into the MTFS to manage the financial impact on COVID-19. This was based on modelling various scenarios against key demand led services and activities that were judged to be particularly sensitive to the impact of COVID-19 and government interventions. The new expenditure assumptions were estimated to be in the region of £5m and £20m, excluding changes to income assumptions (Council Tax, Business Rates and government funding) and £13m is the 'central case' that was taken forward as part of the 2021/22 budget. To date this additional growth has been able to contain the pressures currently being experienced.

4.6 In addition, as the expected easing of restrictions continues to take place, it is reasonable to assume that some of these growth assumptions can move from the central case to more towards the best case. Therefore, a proportion of this growth will not be required in future years. For modelling purposes, this was estimated at £4m and has been judged to be reasonable. Further details are set out in the table below.

Table 2: COVID-19 Growth / Cost Pressures

Description	**2021/22 (£m)**	**2022/23 (£m)**	**Net Growth (£m)**	**Comment**
Personal Protective Equipment	1.0	(1.0)	0	Expected increase in the cost of care, whether the Council funds it directly or care homes source their own. No further pressures expected from 2022/23.
Homelessness	1.5	0	1.5	A continuation of pandemic response measures will require additional resources for managing homelessness. Currently expected that pressures can be contained in the base budget.
Housing Needs rent	1.0	0	1.0	Estimate based on current levels of collection and increase in bad debts. Currently expected that pressures can be contained in the base budget.
Children's Social Care	1.0	0	1.0	Pressures arising within the Children and Young People with Disabilities (0-25) care at home and direct payment budgets. Currently expected that pressures can be contained in the base budget.
Transport	0.5	0	0.5	Pressure arising due to social distancing measures.
Council Tax Support	2.0	0	2.0	Based on an increase in working age caseloads. This pressure remains in 2022/23
Income generation	5.0	(3.0)	2.0	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. Currently assumed that most income sources will begin to return to pre-pandemic levels on a phased basis.
Allowance for uncertainty	1.0	0	1.0	Further slippage of existing savings plans or new emerging pressures.
Total pressures	**13.0**	**(4.0)**	**9.0**	

4.7 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. In many cases, and in particular on income lines, estimates are based on evidence available at the time of writing this report.

4.8 However it must be stressed that the estimates shown 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 the general economy will recover after COVID-19 and what will happen as a consequence of BREXIT. This uncertainty runs alongside existing budget pressures including social care demand, demographic changes, housing and homelessness.

4.9 The commitment to fund ongoing demand led pressures is the most appropriate approach to support the budget setting process, which will be kept under close review to ensure that the budget presented to Cabinet in February 2022 reflects the most accurate and up to date impact of COVID-19 and other pressures in the Council's medium term financial position.

Council Tax

4.10 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.

4.11 The Spending Review announced that Local Authorities will be able to increase Council Tax by up to 2% without a local referendum. In addition, local authorities will be able to levy a 1% adult social care precept. Like last year, the Government's financing assumption is that all councils will act on this and increase council tax by the maximum amount possible. It should be noted that the additional income generated through the Adult Social Care precept alone does not cover the total growth requirement for Adult Social Care pressures.

4.12 COVID-19 has exacerbated existing pressures within the Adult Social Care service. The impacts of long-COVID are having significant effects on people's ability to live independently, therefore the Council is seeing more complex needs requiring a more comprehensive support package. There has been a significant increase in demand for acute Mental Health beds trained professionals, as well as a wider increase in demand for mental health services, both in working age adults and older people living with dementia, particularly connected to disrupted routines and social isolation. There has also been growth in the number of people approaching the Council with multiple needs. This is usually connected to the breakdown of difficult housing conditions and where self-neglect and hoarding is also becoming a problem. There has also been additional growth in Safeguarding Adults. In addition, an increase in demand for support is expected due to people living at home with their family and carers, where restrictions have increased isolation.

4.13 Taking into account the unprecedented pressures within social care and the financial position in the round, the budget has been prepared on the basis of a 3% increase in the Brent element of Council Tax. This will add £4.1m of recurring income for the Council. While it is acknowledged that increasing Council Tax will be difficult for some households, it should also be recognised that the Council continues to invest in the Council Tax Support (CTS) scheme which provides over £30m of support for around 28,000 households who are financially vulnerable. In addition, the Council's Resident Support Fund has made available additional funds for residents who are having difficulty due to unforeseen financial circumstances as a result of COVID-19.

4.14 The GLA precept, which makes up c20% of the overall Council Tax bill, is unknown at this stage and is subject to their own decision making and consultation processes.

4.15 When budgeting for Council Tax, there are three main factors to consider:

- Council Tax Support (CTS) expenditure,
- Short and long term collection rates, and
- Growth in the tax base.

4.16 Nationally, there has been a significant increase in the number working age people claiming Council Tax Support. In Brent, this number has increased by 4.9% bringing the total number of working age people claiming CTS to 19,338. The total cost of providing CTS has increased from £28.4m at the start of the pandemic to £30.7m as at November 2021, an increase of £2.3m. This is important because an increase in CTS expenditure reduces the amount of Council Tax that is able to be collected.

4.17 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 as the ending of furlough has yet to have an impact on local CTS schemes. That being said, the budget for CTS was increased by £2m in 2021/22 on a recurring basis and based on the latest available data, it is proposed that this growth remains in place for 2022/23.

4.18 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 will reach around 98%, which is built into the MTFS model and prior to the pandemic was 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. Based on current modelling, a collection rate of 93.5% is expected in 2021/22, which would result in a £7m reduction of income. Clearly this is significant, however it is expected that collection will continue to be attempted in future years and reach the long-term collection rate target.

4.19 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. That being said, it is deemed prudent to reduce the long term collection rate in the MTFS in order to reflect the reality that there will be an impact on collection, albeit unknown, while acknowledging the Council holds provisions for writing off debt that will not ultimately be collected.

4.20 The calculation of the tax base (and likewise the collection rate) is one of the technical stages in the process of setting the Council Tax and is to be considered by the General Purposes Committee on 6 December 2021. 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 was previously 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.

4.21 Data compiled by the Council from a number of sources, including the planning department and directly from developers, shows a number of consented schemes are likely to complete towards the end of 2020/21. This general trend is also supported by new Council Tax registrations that are currently awaiting banding by the Valuation Office Agency. On this basis, it is recommended to keep the tax base growth for budget setting purposes of 1% for 2022/23.

Business Rates

4.22 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. In addition, the Council has administered direct grants, funded by central government, to local businesses totalling £98.3m 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.

4.23 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.

4.24 The collection rate in 2020/21 was 87.3% which is significantly lower than the amount collected in the same period in the prior year, at 98.2%. While this reduction resulted in an in year loss of £87m, 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.

4.25 The amount that was planned to be collected in 2021/22 was £136.0m and, as a result of mandatory reliefs funded by government, the amount that is able to be collected is now £102.9m. At present, collection is 10% lower than planned, however this is masked by the number of payment deferrals that have been granted to support businesses through the pandemic, restricted enforcement activity and closure of courts. The in-year collection rate for 2021/22 is forecast to be around 88% of amounts due by the end of the year, increasing the levels of debt outstanding that will be pursued over time.

4.26 Business Rates and Council Tax income assumptions in the budgets for 2021/22 and 2022/23 were fairly prudent and reduced the overall income built into the MTFS. For Business Rates, assumptions had been made for a reduced take from certain sectors as well as a lower collection rate. For Council Tax, the recovery rate was marked down from a historical collection rate of 98% and the removal of the furlough scheme and timing of the economic recovery was likely to give rise to a significant increase in the cost of Council Tax Support. At this stage of the budget process, and due to the continued uncertainty in collection, it is deemed reasonable to continue with these prudent budget assumptions.

Business rates- Potential eight authority pool

4.27 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. However, the onset of the pandemic during 2020/21 had a significant impact on the collection of business rates, which has led to an estimated £14.2m loss to be shared by pool participants. Further modelling for 2021/22 and 2022/23 showed a mix of risks across London, which, matched with the comparatively low level of financial return (the 2020/21 pool was only forecast to make a total gain of £36m), meant that it was agreed that the London Pool would not continue for 2021/22 and 2022/23.

4.28 As part of the business rates regime, Government has allowed Local Authorities with a geographic link to form a business rate pool. In forming a pool, the group of authorities are seen as a single entity from a business rate perspective and in doing this, should retain more of the business rate income generated locally.

4.29 The business rate system is complex with a number of moving parts such a property valuation, collection rates, reliefs from Government and revaluation appeals. However, a business rate pool works by lowering the amount paid to Government on business rate growth above the baseline level set by Government. At its highest, 50% of growth is paid to Government. By forming a pool, this rate can be lowered to 0%, and funds which were earmarked to Government would be retained locally.

4.30 The principles behind the eight authority pool are the same as the London Business Rate Pool, in that lowering the levy rate means payments which would have gone to Government would now be retained by the pool participants.

Limiting the membership enables this arrangement to limit the risk to participants in the following way:

- The financial benefit is generated by levy paying authorities reducing their levy rate from 50% to 0% on the business rate growth they generate. This pool contains 2 levy paying authorities, the City of London Corporation and Tower Hamlets. Whilst there has been an impact from the pandemic on the City Corporation business rate collection, this was the lowest in London. Monitoring of 2021/22 collection rates have remained stable as has the overall amount of collectable business rate. This provides some comfort that business rate growth will remain for the foreseeing future, albeit subject to continued monitoring and further analysis of trends in business premises usage i.e. office space, which represents 80% of the rates base. In order to lose all business rate growth, the City Corporation would need to experience a 20% loss in the value of business rates, something which has not been experienced to date.

- All the other participating authorities (Brent, Barnet, Enfield, Hackney, Haringey and Waltham Forest) are top up authorities i.e. authorities which do not generate enough income from business rates to meet their funding requirement, and therefore receive additional funding from Government to top them up. Their inclusion lowers the levy rate from 50% to 0%. Due to their top up status, this group would have to lose more than 100% of their business rate base in order to pull the pool into a loss.

- The business rate system has a floor funding level, which the pool will become responsible for should participating authorities fall below this level. These payments would be triggered with significant reductions in business rates income. The make up of the selected authorities make this circumstance unlikely. It would take a 20% reduction across all the participating authorities to create a pooling loss.

4.31 Based on the financial modelling undertaken to date, the benefit for Brent is estimated to be in the region of £2m. This is based on estimates using forecasts from participating boroughs and are therefore only illustrative and a lower set of figures is entirely possible. However, the example serves to illustrate the potential direct financial benefit of joining the pool on the basis being offered. It is important to note that the final value of the pooling gain will not be known until the Statement of Accounts for the Pool Collection Fund, managed by The City of London Corporation, has been finalised and audited in the autumn of 2023. This position will be closely monitored during 2022/23 but at this stage it is not deemed prudent to build this potential additional income into the base budget, especially given the uncertainty referred to above. Any pooling gain that is confirmed once the audit is complete will be brought forward for one off projects as part of the 2023/24 budget setting process.

Government Funding

4.32 As described earlier in the report, the precise details of the additional funding announced in the Spending Review for Local Government will not be known until the Provisional Local Government Finance Settlement, usually announced in mid-December. However, The Spending Review did confirm that the Revenue Support Grant and the Public Health Grant will continue and be uplifted by inflation. Unusually, there was no specific confirmation regarding the Improved Better Care Fund and the Social Care Grant, albeit it is widely expected that they will continue based on follow up discussions with DLUHC. Together these grants represent over £70m of funding. Therefore, core funding assumed in the 2022/23 budget remains as previously assumed.

4.33 The new grant funding allocations for Brent for expected social care reforms is currently unknown. However, follow up discussions with officers at DLUHC indicate that the new grant funding is expected to cover all of the cost of reforms to social care, for example the increase in employers National Insurance Contributions (for both the Council's pay bill and supplier costs), the cost of the cap on personal care costs and inflationary pressures expected in the social care market. It will be some time before the costs of these reforms are better understood and therefore if the new grant funding is sufficient.

4.34 At this stage, in the absence of any detailed information, these new grant allocations do not form part of the draft 2022/23 budget. Likewise, the anticipated additional expenditure is similarly excluded. Funding allocations will be presented to Cabinet in February 2022 as part of the 2022/23 budget.

5.0 Overall summary of the budget position

5.1 Expenditure in 2021/22 is forecast to be within budget for the General Fund. The main general fund revenue budget for 2022/23 was essentially set at the Council meeting of February 2021, where savings of £2.7m were agreed. Provided that the key assumptions set out in this report hold true then expenditure in 2022/23 should also be contained within budget, as shown in the table below.

Table 3: Overall Financial Position

	2022/23 £m
Expenditure	
Assumed budget brought forward before in-year growth and savings	297.0
Demographic Growth	3.5
Other Growth	10.0
COVID-19 Adjustment	(4.0)
Total Expenditure	**306.5**
Income	
Revenue Support Grant	25.1
Specific Grants	41.2
Total funding from Central Government	**66.3**
Council Tax	142.5
Business Rates	95.0
Total funding from residents and businesses	**237.5**
Total Income	**303.8**
Budget Gap (Expenditure less Income)	**2.7**
Savings agreed in February 2020	**1.8**
Savings agreed in February 2021	**0.9**
Budget Gap	**0**

5.2 It should be noted that this report reflects the position at this point in the budget preparation and these numbers will change as the budget develops over the next two months. We also await confirmation of the Local Government Finance Settlement, expected in mid-December 2021. If there are any material changes announced by Government these will be reflected within the budget to be considered by Cabinet in February 2021.

6.0 Statutory process of consultation, scrutiny and equalities

Consultation

6.1 The Council recognises consultation as a key part of policy formulation, and makes considerable effort to ensure that the views of residents, businesses and other key stakeholders are taken into account. Legally, the results of consultation are something that Members must have due regard to, alongside other relevant considerations, when making decisions.

6.2 The Council's minimum legal duty in February 2022 will be to set a budget and Council tax for 2022/23. As set out in this report, provided the decision on increasing Council Tax is endorsed by members, the service budget for 2022/23 can be set on the basis of savings proposals which have already been consulted on extensively, subject to the results of the local government settlement and any other material changes in the financial position.

6.3 For clarity, these are the proposals set out in Appendix A. These were agreed in February 2021, following consultation at two online Brent Connects meetings. Clearly, in the consultation process set out below, it will be open for respondents to raise issues about these proposals if they so choose. However, on the basis that they have already been consulted on extensively, and agreed to go forward when other budget proposals were explicitly rejected through that process, the reasonable working assumption is that these proposals will proceed unchanged.

6.4 As in previous years, it is proposed to formally consult on the draft budget via the online consultation portal, where respondents will be invited to focus their attention on the 2022/23 budget. In addition, it is proposed that a presentation on the draft budget be delivered through the new online Brent Connects format.

6.5 There are a number of business forums and associations that the Council regularly engages with that include a wide range of both small and large local businesses. These include West London Business (a non-profit business membership organisation), the Federation of Small Businesses, a number of town centre business associations and the Brent Business Board. The consultation on the budget will be published in a newsletter that is sent to a large number of Brent businesses, explaining why the views of local businesses are important and how to they could have their say.

6.6 The local voluntary sector is closely engaged with Brent's communities and has considerable experience of the impact of the Council's difficult choices against a background of funding reductions. Engagement with the local voluntary sector will therefore play an important part of the consultation process and invitations to participate in the consultation will be sent to all Brent voluntary and community sector organisations.

6.7 Overall, the main aim of this approach to consultation is to raise awareness of the Council's financial position, inform residents of how the Council spends its budget and ensure residents, business and other key stakeholders are aware of the opportunities to have their say, by knowing how to respond and when the consultation events are taking place.

Scrutiny

6.8 The scrutiny committees will review the draft budget through their budget task group in order to carry out the statutory scrutiny of the budget. This will include scrutiny of the budget development process, the budget assumptions in the MTFS as well as the savings proposals set out in Appendix A. Following this, the chair of the committee will present a report to Cabinet commenting on the outcome of the scrutiny process and providing recommendations for Cabinet to consider as part of their decision making.

Equalities Impact assessments

6.9 The Council has a duty to pay due regard to the need to eliminate unlawful discrimination and advance equality of opportunity and foster good relations between those who have a protected characteristic and those who don't when making decisions. This duty is set out in more detail in the Equality Implications section of this report.

6.10 Each of the budget proposals attached in Appendix A have been subject to an equality impact assessment (EIA) screening to assess their potential or likely impact on service users and employees with protected characteristics. Where the EIA process identified a disproportionate negative impact with no reasonable mitigation, the proposal was subject to a full EIA. In summary, it has been concluded that all of the proposals are considered reasonable and have shown due regard to the Public Sector Equality Duty.

7.0 Schools and Dedicated Schools Grant

7.1 The Council will continue to set a local funding formula for mainstream schools in 2022/23, although the total funding available will be determined by the National Funding Formula (NFF). The provisional Dedicated Schools Grant (DSG) block allocations announced show that the Council will receive a minimal increase in mainstream pupil funding of £1.8 million which represents an overall 0.71% increase. This is lower than the national percentage increase of 2.9% and lower than the average of 1.7% for Local Authorities in London. The lower overall increase is due to factors such as: varying per-pupil funding levels across local authorities in London which are higher than the NFF 2022/23 minimum per pupil rate, and the impact of decreases in primary pupil numbers.

7.2 The Spending Review 2021 confirms a £4.7 billion growth by 2024/25 for the core schools budget in England. This growth includes: funding to cover the cost of a temporary increase in National Insurance Contributions (NIC) of 1.25% for 2022/23 from April 2023 to be replaced by the Health and Social Care Levy. The funding would also be used to increase teacher starting salaries to £30,000.

7.3 The Spending Review also confirms a £1 billion Recovery Premium for the next two academic years for schools. This funding is based on pupil premium eligibility. Primary schools will continue to benefit from an additional £145 per eligible pupil, but it is expected that the funding for secondary schools will nearly double which may be close to the £290 rate for pupils in Special Schools, Alternative Provision & Pupil Referral units. Additional funding was also announced of £324 million in 2024/25 for additional learning hours for 16-19 year olds. This funding increases the average hours funded in 16-19 education by 40 hours. Further details are expected in the coming weeks detailing how the funding will be allocated.

7.4 The High Needs block (HNB) of the DSG for 2022/23 will increase by £5.3 million representing an 8% increase in the HNB income. This is below the London average of 8.21% and the national average of 8.84% due to London experiencing the lowest increase in the funding floor factor as a result of reduction in pupil numbers, and the lowest increase in 3 out of the 6 Income Deprivation Affecting Children Index (IDACI) bandings.

7.5 There are pressures against the HNB block due to increased demand for Education Health and Care Plans (EHCPs) and this is a national issue. Despite the additional funds, the demand pressures continue to grow and to set a balanced DSG budget in 2022/23 the Council will request via the Schools Forum a 0.5% transfer from the Schools Block. The pressure in the HNB has led to the DSG being in a £10.5 million deficit carried forward from 2020/21 and further forecast pressures of £4.4 million in 2021/22 will increase the deficit position to £14.9 million.

7.6 The DfE require local authorities with an overall DSG deficit to have a management plan to recover the deficit over a number of financial years. The Schools Forum have been presented with actions being taken to manage demand, improve sufficiency of places and financial management to recover the deficit in the medium to long term. These include: establishing more SEND provision in the borough as part of the School Place Planning Strategy 2019-23 Refresh paper including developing new Additionally Resourced Provisions (ARPs); ensuring there is full cost recovery from other local authorities that place pupils in Brent special schools including administration and other specific costs; a review of the DSG funded SEN support services; continued central government lobbying. The Deputy Leader of the Council is actively part of the lobbying process.

7.7 The key principle of allocating the funding for the Early Years Block remains the same i.e. 95% of funding received is allocated directly to providers with the remaining 5% or £1m retained for central services. Funding arrangements for the Early Years Block have not yet been published but following the Spending Review 2021, the DfE confirmed that nationally, the block will receive additional funding worth £160 million in 2022/23, £180 million in 2023/24 and £170 million by 2024/25 to enable local authorities to increase hourly rates paid to providers for childcare entitlement offers which reflects the costs of inflation and national living wage increases. An Early Years funding report for 2022/23 will be presented at the Schools Forum in January 2022 detailing the revised funding rates.

8.0 Housing Revenue Account

8.1 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 11,693 dwellings.

8.2 Each year, the HRA budget is set 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 that the HRA can continue to remain financially secure and deliver on its commitments to:

- Expand and accelerate the development of new Council homes
- Continue to maintain and improve existing Council homes
- Transform and continuously improve front line services to tenants and leaseholders

8.3 The HRA budget setting from 2016/17 to 2019/20 was principally directed by the Welfare Reform Act 2016, which imposed a 1% rent reduction for four years. This has resulted in a reduction of rental income and bottom line surpluses previously assumed in the business plan. The resulting £23m loss of income, along with increased capital expenditure on major works, has led to the full utilisation of the major repairs reserve to finance investment in the existing housing stock. Efficiency savings targets are incorporated into the budget setting process. From 2021/22 onwards, this is a 2% target across management and repairs costs, which equates to £0.5m per annum.

8.4 From 2020/21, the Council has the power to increase rents annually up to a maximum of CPI plus 1% for a period of five years. For 2022/23, CPI plus 1% equates to 4.1%, allowing the potential to increase rental income by £2m, and up to £6m over the remaining three-year rent control period.

8.5 The average rent in 2021/22 is £118.74 per week. A 4.1% increase would equate to an average rent of £123.61 per week in 2022/23, an increase of £4.87 per week when compared to the current rent levels. The increase is required for inflation led growth and to ensure sufficient continued capital investment in the Council's existing housing stock.

8.6 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 for the five-year period is expected to provide some stability and certainty over planned investment in the stock, service improvement and new development, at least in the medium-term, as a £2m increase in rent has the effect of an additional £60m investment in the HRA over a 30-year period. The approach beyond 2025 remains uncertain, but continuation of the CPI plus 1% formula is probable.

8.7 The 2022/23 HRA Business Plan is attached as Appendix B. Following the consultation processes proposed in the plan, the HRA budget for 2022/23 will be presented to Cabinet in February 2022 for approval by Full Council.

9.0 Capital Programme

9.1 The Capital Programme comprises of projects approved by Cabinet at the February 2021 budget setting, new projects approved and a number of in year budget adjustments. The full details of the budget changes and new proposals will be reported in the budget setting report in February 2022.

9.2 The table below provides an overview of the planned spend and financing of the Capital Programme budgets for the five year period 2022/23 to 2026/27.

9.3 As set out in the table, the Council is planning to borrow externally up to £339m over the three year MTFS period. The prudential borrowing equates to around 61% of the total funding, followed by external grant and contributions at 25%. Internal funding from earmarked reserves and capital receipts make up a further 7% and these will be mainly generated from the sale of council land and property that will be constructed as part of regeneration schemes such as South Kilburn. The remainder comes from Strategic Community Infrastructure Levy (SCIL) and S106 contributions.

9.4 The interest costs on borrowing has a direct impact on the revenue budget as the annual interest payments are charged to it. For this reason, the capital programme is continually being reviewed for projects to take forward, pause and to explore funding avenues for the programmes besides borrowing.

9.5 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new borrowing undertaken on capital expenditure and reduces with the minimum revenue provision (MRP) set aside, and capital receipts or other funding used in place of borrowing.

Capital Programme Budgets 2022/23 to 2026/27

Board	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Corporate Landlord	5.912	53.333	22.600	-	-	81.845
South Kilburn	22.723	17.821	4.200	14.849	-	59.594
Regeneration	42.845	1.157	-	-	-	44.003
St Raphael's	0.005	-	-	-	-	0.005
Public Realm	22.939	5.701	2.145	-	-	30.785
Schools	62.014	22.000	-	0.000	-	84.014
HCIB – GF	59.956	21.363	53.622	-	-	134.942
HCIB – HRA	42.269	31.044	0.004	-	-	73.316
PRS I4B	24.309	18.597	-	-	-	42.906
TOTAL	**282.972**	**171.016**	**82.570**	**14.849**	**0.000**	**551.408**

Sources of Finance	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Grants & Other Contributions	92.295	36.876	6.645	-	-	135.816
S106 & SCIL	9.566	22.478	-	-	-	32.045
Capital Receipts	16.471	0.318	4.200	14.849	-	35.838
Reserves	0.800	-	-	-	-	0.800
Major Repairs Allowance	-	-	-	-	-	-
Revenue Contribution *	4.000	4.000	-	-	-	8.000
Prudential Borrowing	159.840	107.344	71.726	-	-	338.910
TOTAL	**282.972**	**171.016**	**82.570**	**14.849**	**0.000**	**551.408**

*This includes funding towards the annual highways capital maintenance budget used to maintain carriageways and structures.

9.6 The strategy has been to build up the capital financing budget in manageable increments, rather than taking a substantial one-off hit. This prudent approach will ensure that sufficient capital financing budget is in place as the Council's capital borrowing plans are undertaken over the medium to long term.

10.0 Financial Implications

10.1 The financial implications are set out throughout the report. As the budget proposals are for consultation at this stage, not agreement, there are no direct costs associated with agreeing the recommendations, other than for consultation, the costs of which are built into existing budgets.

11.0 Legal Implications

11.1 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 Director of Finance is required to report on the robustness of the proposed financial reserves.

11.2 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.

11.3 The Council is also required to comply with other statutory and common law consultation obligations relevant to particular options being considered and with the Public Sector Equality Duty. The Council must consult at a formative stage in the decision making process and adequate time must be given for public consideration and response. The consultation information must be accurate, fair and balanced, give sufficient reasons for proposals to permit of intelligent consideration and response and the information produced by the consultation must conscientiously be taken into account in finalising the proposals.

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 and advance equality of opportunity and foster good relations between different to those who have a protected characteristic and those who don't when making decisions. The 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. This may mean making up the shortfall from additional reductions elsewhere.

13.0 Consultation with Ward Members and Stakeholders

13.1 Section six of this report provides more details of the statutory and the non-statutory consultation process with regards to the proposed budget setting process.

14.0 Human Resources

14.1 Where options included in the appendices require changes or reductions in staffing, the Council's Managing Change policy will apply.

Related Document:

Medium Term Financial Outlook, Cabinet July 2021

<u>Report sign off:</u>

Minesh Patel
Director of Finance