

	<b>Cabinet</b> 18 July 2022
	<b>Report from the Director of Finance</b>
<b>Medium Term Financial Outlook</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Key Decision
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	None
<b>Background Papers:</b>	None
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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 2023/24, which is the Council's minimum legal duty in respect of local authority budget setting, in order to maximise the period of consultation with residents, businesses and other key stakeholders.
- 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, the cost of living crisis 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. These primarily relate to exceptional factors such as COVID-19 scarring, high levels of inflation, increased demand for key services and uncertainty in government funding. 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 these issues. 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 2023/24;
  - Capital programme;
  - Housing Revenue Account;
  - Schools and the Dedicated Schools Grant;

## **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 2023/24, including the approach to consultation and scrutiny, as set out in section five of this report.
- 2.3 Note and agree the proposed 2021/22 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**

### **Macro-Economic Outlook**

- 3.1 This report paints a picture of considerable uncertainty in the economy caused by exceptional factors such as the COVID-19 pandemic, high levels of inflation, particularly for fuel and energy, and the global impact of war in Ukraine. These macro-economic factors together with local changes to demographics and demand-led pressures combine to create substantial need for growth in the Council's budget. At the same time, levels of government funding are uncertain. Nationally funding for local government is unlikely to keep pace with inflationary pressures and locally the effect of the government's "Levelling Up" agenda, which may move funding from London to the rest of the country, is highly uncertain.
- 3.2 Two years since the start of the pandemic, the current economic outlook is presented against the backdrop of another unfolding global shock - the Russian invasion of Ukraine. The conflict has major repercussions for the global economy, whose recovery from the worst of the pandemic was already being buffeted by the Omicron variant, supply bottlenecks and rising inflation. A fortnight after the invasion, gas and oil prices peaked over 200% and 50% above their end-2021 levels respectively. Prices have since fallen back, but remain well above historic averages.
- 3.3 The Bank of England is attempting to stifle inflationary pressures by raising interest rates, in common with other central banks worldwide; however, unlike the US Federal Reserve, the BoE is not confident it can engineer a soft landing for the economy. Instead, unusually gloomy BoE forecasts predict that the economy will contract by 1% in the fourth quarter of this year after gas and electricity costs have risen another 40% in October. Rising energy bills are forecast to push inflation up to 11% by December 2022, the highest in 40 years, and to slash real household incomes as wages fail to keep pace.
- 3.4 There are also shortages of food supplies due to the reduction in exports from Ukraine. This affects day-to-day essential commodities such as wheat, other cereals and sunflower oil leading to shortages and price rises for these items and similar alternatives. This is a contributor to the cost of living crisis faced by residents of the borough and will directly affect businesses and the Council itself by creating inflationary pressures.
- 3.5 The cost of living crisis is likely to have a direct and indirect impact on numerous service areas, ranging from leisure and civil ceremonials to homelessness and building services, with corporate impacts on Council Tax and Business Rates Collection as well as the Council Tax Support scheme.

### **Inflation**

- 3.6 Inflation is being experienced at higher levels than has been the norm for recent years in all sectors of the economy. Core inflation, which strips out goods prone to fluctuation such as seasonal items, is experiencing the same levels of

increase as mainstream inflation measured by CPI or RPI, indicating that higher levels of inflation are endemic in the economy. Fuel and energy costs are particularly volatile. As a net energy importer with a high degree of dependence on gas and oil to meet its energy needs, higher global energy prices will weigh heavily on a UK economy that has only just recovered to near its pre-pandemic level.

- 3.7 In May 2022 the Consumer Price Index (CPI) hit 9.1%, up from 9% in the previous month, while the Retail Price Index (RPI), which is often used for contract indexation, reached 11.7%. The driving force behind these increases is fuel and energy costs, but there were sustained price rises in most categories of expenditure.
- 3.8 In June 2022 the Bank of England forecast that CPI inflation would peak at 11% in December 2022 before falling in 2023 and returning to the target level of 2% at some point in 2024. It is anticipated that the September 2023 figure could be 6% - this is used for inflation on many contracts.
- 3.9 Pre-pandemic a provision of £6m was adequate to cover the pay award, contract indexation and general inflation. The inflation provision is now more than double that amount at £14m and is set to rise further in 2023/24 to £18m before falling back in line with the Bank of England forecast. As an example, if inflation were 10.25%, this would add a further budget pressure of £9.23m per annum.
- 3.10 High inflation will have a significant impact nationally putting pressure on central government finances, with generally increased costs and automatic rises for items such as pensions that are indexed to the September CPI figure. Locally, many of the council's contracts have automatic indexation provisions that use specific indices at a point in time to increase the contract payment. General inflationary pressures will undoubtedly lead those negotiating pay awards to seek a similar level of increase to cover the rise in the cost of living.

### **Interest Rates**

- 3.11 On 16 June the Bank of England raised the base rate of interest by 0.25% to 1.25%. The BoE officials forecast that the UK economy will slide into recession this year as higher energy prices push inflation over 10% by Christmas. This gloomy outlook has pushed sterling to a two-year low. Despite a forecast of a severe fall in household incomes, the BoE's Monetary Policy Committee's decision to raise base rate to 1.25%, its highest level since February 2009, will squeeze households further. Three of the nine MPC members voted for a half-point rate increase. Further increases are expected. Goldman Sachs predict interest rates will double to 2% over the next year, whilst Capital Economics forecast that rates will peak at 3% in 2023. For the Council, these rises will affect the cost of future borrowing, but not existing debt as the Council borrows on terms where the interest rate is fixed for the life of the loan.

## Cost of Living Crisis

3.12 The UK is facing a cost of living crisis as higher inflation erodes real incomes and consumption. The Bank of England has warned that household disposable income is projected to fall this year by the second largest amount since records began in 1964. The Council already has in place a number of mechanisms to support residents who may be struggling financially. These include:

- The **Brent Resident Support Fund (RSF)**, which has been in place since August 2020. In the period August 2020 to 31 March 2022 the RSF supported 2,658 applicants with a total of £5.2 million.
- A **Fuel Poverty Toolkit** which was developed and promoted internally. It is available for all staff to access via the intranet. The toolkit provides an overview of local, national and independent support schemes and agencies, along with details as to how support can be accessed. Thirteen stakeholder briefings sessions were also delivered, helping raise awareness of the options that are available to residents help with the rising energy costs. These included briefing sessions for Members, as well as services including Housing, Public Health, Adult Social Care and Family Wellbeing Centres and Voluntary Community Sector (VCS) partners.
- In March 2022 a **Financial Support leaflet** outlining the support available was developed. This was delivered to all households in Brent to help increase awareness of the schemes and mechanisms available to residents who are struggling with the cost of living.
- **Brent Hubs** have in place mechanisms to issue vouchers to residents in need of urgent food and fuel support. This is in addition to referrals to food aid agencies and schemes for support with the cost of utilities. From October 2021 to March 2022 Brent hubs issued £2,490 worth of food vouchers and £5,507 worth of fuel vouchers. Over 5,000 residents presented at hubs in need of food aid between April 2019 and January 2022. Residents' presenting needs at the hubs are food and fuel enquires (30%), housing and homelessness (14%), council tax support (12%), form filling (12%), welfare benefits (8%), housing benefit (8%), money and debt advise (8%), digital support (5%), skills and employment (2%), and immigration (1%).
- The delivery of a number of Borough Plan funded **Financial Inclusion projects**, including a financial capability upskilling programme targeting community leaders, training to upskill Brent hubs staff and residents in debt management, and the delivery of a financial inclusion learning programme for residents. Up to 340 residents and community leaders will be supported through this programme.
- The Employment, Skills and Enterprise service have helped to **upskill residents to support them moving into work**. This includes 4,443 qualifications via Brent Start (ESOL, English, Maths & Digital Skills) from September 2021 to date, digital equipment loans, and financial support toward childcare.
- **Digital Inclusion** support for over 900 households, including providing 400 Brent pupils with access to a digital device and 100 businesses with digital skills training. To improve digital skills in the borough we have also launched digital cafes at three Brent Hubs and currently have around 100 digital

champions in place. We also continue to engage internet providers to improve access to fibre through social tariffs.

- These initiatives are in addition to work being carried out across Council departments and by partner organisations which is aimed at supporting residents who are in hardship.

### **COVID-19 Scarring**

- 3.13 Whilst the country has moved to a 'Living with COVID' position, which has seen the lifting of restrictions, a full return to pre-pandemic levels and patterns of activity has yet to happen. The impact of COVID-19 is not fully known and there is a risk that the Council may be exposed to unfunded financial pressures in the current and future financial years. In addition, the income loss compensation scheme 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. Similarly, the sales, fees and charges compensation scheme ended in July 2021, while the 'Plan B' restrictions will have had a further adverse impact on business rates and fees & charges income due to reduced footfall. Overall, these income losses may pose a considerable budget pressure. Any permanent 'COVID scarring' will also need to be reflected in the MTFS.
- 3.14 Despite these financial pressures, the Council has put in place considerable resources to support residents and businesses through these challenging times. On 12 July 2021, Full Council agreed to set aside £17.5m of reserves for Recovery Initiatives. This is one-off funding over three years for 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.
- 3.15 The Council has also created the Brent Resident Support Fund. This dispersed 5.2m over 2020/21 and £2021/22. It is estimated that a further £6m will be allocated in 2022/23. This is funded from reserves.
- 3.16 In the 2021/22 budget the Council allocated £13m of ongoing growth to address the effects of the COVID pandemic. £4m of this funding was removed in the 2022/23 budget. No additional funding is built into the MTFS for future years. The level of COVID scarring will need to be kept under review and is hard to assess. At the moment the best proxy for the cost of COVID scarring to the Council is £9m per annum (i.e. the £13m recovery budget originally allocated and subsequently reduced by £4m). This primarily relates to the increased cost of Council Tax support, income losses, lower collection rates and the higher cost of social care placements.

### **Local Government Finance Settlement**

- 3.17 On 27 October 2021 the three year Spending Review was published and on 7 February 2022 the Levelling up secretary Michael Gove confirmed the final Local Government Finance Settlement for 2022/23. Whilst the 2021 Spending Review covers three years, the Local Government Finance Settlement was for

one year only - the fourth one-year settlement in a row. Clearly, this is not helpful for medium term financial planning. The Spending Review indicates that the settlement is frontloaded, meaning that the risk of any additional service pressures from 2023/24 onwards will fall on the Brent taxpayer rather than the Chancellor.

- 3.18 The 2022/23 Local Government Finance settlement set out that core spending power will increase by 2.99% each year. However, this assumes that all councils will increase Council Tax by the maximum amount allowable without triggering a referendum of 2.99%. In addition, much of the new grant funding is tied to social care reforms, meaning that other services will benefit less. Removing the funding for the social care reforms, the increase for local government is actually 1.8%, which compares to 3.3% for the average government department.
- 3.19 It is anticipated that changes to the mechanism to allocate local government grants, implemented as part of the Fair Funding review, may see funding redistributed with a net transfer out of London. This would be consistent with the Government's "Levelling Up" agenda, which is targeting funds away from the capital. Although the government's stated aim is implementation of the Fair Funding review in April 2023, it is widely expected that there will be at best only a partial implementation at that point with completion of the review slipping to a future year. Normally, when the government makes major changes to local government funding, it puts in place transitional arrangements to bring in any funding reductions gradually over time. It is anticipated that this will happen with the Fair Funding review so that the full impact of any reduction in funding will not be felt for a number of years.
- 3.20 Combining the risks of the front-loaded local government settlement with a gradual reduction in government grant leads to the conclusion that the final years of the MTFS face a considerable risk that the level of government funding will be inadequate to cover future service requirements and that additional savings will be needed to balance the budget.
- 3.21 Another one year settlement means that it is unknown if the additional funding announced in autumn 2021 will be maintained. In particular, the settlement included a one-off grant, called the 2022/23 Services Grant, which is intended to cover various new burdens, such as National Insurance Contribution increases for Brent and its suppliers, and other expected inflationary pressures. The government has not committed to maintain this grant at current levels. Many commentators believe that this funding stream could be used to fund the "Levelling Up" agenda and that the future distribution mechanism could move funding out of London.
- 3.22 That being said, on 28 June 2022 at the Local Government Association's annual conference Michael Gove confirmed that Councils will receive a two year funding settlement from next year and will launch a consultation on spending plans. This news is welcome following four single year settlements and should make financial planning somewhat easier. However firmly fixing funding more than two years out amid rising inflation could be problematic. In

addition, while this announcement will help the 2024/25 budget setting process, it does not help in setting the budget for 2023/24 due to core government funding not being announced until December 2022. At the conference no new commitments were made on how the government would support Councils in managing the impact of inflation.

### **Service Specific Pressures**

- 3.23 The Council is operating in a challenging financial environment with a funding outlook which is uncertain for local government in general and in particular, there is a lack of clarity around long term funding for adult social care and emerging pressures in children's services. In addition to this 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 on-going 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 pressures and contractual indexation. COVID, rising inflation, demand pressures on services and the reletting of a number of significant contracts in the Regeneration and Environment department add further financial risks. Therefore, Brent is likely to require significant savings over the next few years to deliver a balanced budget.
- 3.24 The demand for social care services and complexity of care needs are also ever-increasing resulting in higher costs. Whilst there are some reductions in costs due to less Residential and Nursing placement following the COVID-19 outbreaks, the demand for homecare and supported living is on the rise.
- 3.25 The cost of living crisis and the steep rise in inflation, heating and fuel costs are likely to have an impact on social care placement requests from providers who are looking to recover some of the additional costs they are incurring.
- 3.26 Another key area of uncertainty is the fair cost of care and social care reforms, which are likely to present substantial financial risks to the Council. While additional funding has been provided to support councils in preparing their markets to deliver the fair cost of care reforms, delivering these reforms will redirect resources away from frontline social care at a time when recovering from the pandemic is exerting major pressure on staff capacity. In addition, it is currently unknown whether the new funding will be sufficient to cover the cost of the reforms, such as the increase in employer's National Insurance Contributions (which affects 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. Any shortfall in social care funding will, therefore, mean that the Council Tax will end up taking the strain.
- 3.27 As the cost of living is rising, the demand for housing services can be expected to increase and the number of homeless applications to rise. The current economic climate could also have an impact on the rent collection rates and

result in increases in rent arrears. In addition, the service is reliant on the PRS for supply to prevent homelessness and end statutory homelessness duties. However, this market continues to contract. With more people placed in Temporary Accommodation, higher costs and less supply available to prevent homelessness, this could cause financial pressures on the budgets.

- 3.28 The Redefining Local Services (RLS) programme was initiated in May 2019 to develop and implement a commissioning strategy for environmental services. The existing contracts were synchronised so that the new service arrangements would come into place from 1st April 2023. The final delivery model was approved to operate as a “specialist contracts delivery model with low to moderate levels of insourcing”. And the procurement process is now underway for these specialist contracts.
- 3.29 Risks around the procurement process are being monitored and reviewed, however until the procurement processes are completed there remains a financial risk around the affordability of the contracts. In particular the rising rates of inflation and fuel costs, which could lead to increased contract prices when they commence in April 2023. The projected contract prices remain in review against the budget available, and increased contract costs will be considered when setting savings targets for 2023/24.
- 3.30 R&E has an income budget of £42m. A small percentage change can have a large monetary impact. For example, an additional 1% reduction in income would be equivalent to around £0.4m. In 2021/22 income collected was impacted due to the recovery from Covid-19 restrictions, such as in parking with changing motoring activities reducing traffic, and income from planning and building control applications reduced. It is hoped that with no restrictions income will continue to recover. In the current year there also remains some concern around the cost of living and the impact that could have on income received, this will be monitored throughout the year.
- 3.31 The Highways revenue budget is reliant on TfL LIP funding which was significantly reduced in 21/22 due to severe financial pressures on TfL. Since April 2020, TfL has negotiated a series of short-term funding settlements with the Government to enable it to continue operating public transport services and to enable the delivery of essential improvements to the transport network across London. Accordingly, the funding provided to Brent has been significantly below what it would usually expect to receive, and this impact continues to be felt in 2022/23. Reduced funding has been provided for quarter 1 of 22/23, with funding beyond that currently uncertain with further updates from TfL awaited.

### **Overall Summary**

- 3.32 Brent has delivered total cumulative savings of £196m since 2010. In the last two years, 2021/22 and 2022/23, the Council has saved £11.2m, but it is clear that, looking forward to 2023/24, 2024/25 and 2025/26, further savings will be required. The lack of clarity around the future level of local government funding and uncertainty about the economic environment, particularly inflationary

pressures, make it hard to be precise about future financial targets. When the 2022/23 budget was agreed by Council in February 2022, it was assumed that further savings of around £12m were required for the next two years. However, based on information and data available to date, it is clear that looking forward to 2023/24 and 2024/25, further savings will be required. The current working assumption is that £28m of savings will be required between 2023/24 to 2024/25 to balance the budgets of those years. The exact gap is inherently uncertain, simply because of the number of variables to be estimated and the difficulty of doing so over longer periods of time. The accuracy of this is probably at best +/- 20%, and wider variations are entirely plausible.

- 3.33 These estimates, which will be refined over the summer, will be a major factor in the construction of 2023/24 budget. The Council will be looking to identify and deliver savings of c£20m to bridge the gap in 2023/24 and enable it to set a balanced budget as required by law. The budget gap for 2024/25 will be reviewed once the local government finance settlement for 2023/24 is known. The Council will need to take difficult decisions about which services to prioritise and protect and which to reduce in order to continue to deliver affordable and sustainable budgets.
- 3.34 It is within this overall financial context that the other financial reports on this agenda, specifically the Financial Outturn 2021/22 report and Q1 2022/23 Financial Forecast report, become particularly relevant. Firstly, the Financial Outturn 2021/22 report sets out the outturn for income and expenditure versus the revenue budget for 2021/22. Despite reporting pressures of £20.7m as result of COVID-19, emergency funding from central government, and other interventions undertaken by the Council, were sufficient to offset these pressures. Secondly, the Q1 Financial Forecast report for 2022/23 sets out that based on current assumptions, the ongoing financial impact of COVID-19 and other budget pressures, such as inflation and demographic pressures, can be contained within the overall growth built in the 2022/23 budget.
- 3.35 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 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, the current inflationary pressures being experienced makes financial planning and management exceptionally challenging. This uncertainty runs alongside existing budget pressures including social care demand, demographic changes, housing and homelessness.
- 3.36 Nevertheless, despite all of the uncertainties, risks and moving parts, all Local Authorities have to put together financial plans for 2023/24. 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 2022.

## **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 2022/23 was agreed in February 2022, and in another report on this agenda the first forecasts against that budget are reported.
- 4.3 The ongoing impact of COVID-19 and the emergence of significant inflationary pressures 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 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.
- 4.4 The MTFS will be refreshed as part of the draft 2023/24 budget that will be presented to Cabinet later this year, including extending out to 2024/25 and beyond. Adopting a long term and forward looking approach should leave the Council in a sustainable financial position, with long term plans in place to give certainty to residents about future levels of service provision.
- 4.5 As part of the work to implement CIPFA's Financial Management Code, the Council will also introduce a longer term planning model with a high level overview of expenditure and resource requirements over the next 10 years – the Financial Strategy. This work should build a more robust forecasting tool, which is essential at a time of great uncertainty. It is worth noting that the longer term view captured in the Financial Strategy is intended to identify known and anticipated future expenditure requirements both to renew and maintain existing services and to allow transformation and investment in big ticket, long term initiatives. Much of this will involve capital investment.
- 4.6 It is important that the Financial Strategy and refreshed MTFS closely align with the Borough Plan for which they are the funding statement. They should also be closely linked to individual service plans for which they provide the funding sources and the Capital Strategy, which is key to sustaining the Council's services and investment in future improvements.
- 4.7 The aim is to produce a comprehensive suite of forward planning documents that allow the Council to ensure long term financial stability and a structured forecast of the future based on a 'no surprises' approach

### **Growth Assumptions**

- 4.8 Much of what the Council terms 'growth' is in fact the cost of standing still. Some of this is unavoidable (e.g. contract inflation, pay awards), whilst other parts

- result from growth pressures, such as demographic changes, that increase demand for services (e.g. adult social care, children's services, homelessness).
- 4.9 The Council currently expects services to contain inflationary pressures within their cash limits, but provides a specific amount for contractual indexation via growth. At present there is £3m allowed for contractual indexation in 2022/23. This is anticipated to be adequate as most contracts for this year are updated based on inflation indices from late 2021 or early 2022 – i.e. before the large increases seen in March and April 2022 and the £3m is backed up by detailed business cases. Allowances for contractual indexation in future years are £5m (2023/24), £3m (2024/25) and £2m (2025/26). This is in line with the Bank of England forecast that the rate of inflation will fall back, having peaked in December 2022. It is not clear at the moment whether these amounts will be adequate as this depends on knowing both the base value of contracts being re-let in 2022/23 and the level of increase in the indices relevant to indexation.
- 4.10 As inflation is so volatile, as part of the budget setting process for 2023/24, part of the Future Funding Risks reserve will be ear-marked to fund one-off spikes in inflation that do not require incorporation in the base budget.
- 4.11 Given that consumer price inflation is forecast to rise as high as 11% by December 2022, this is an area of considerable risk that will need to be closely monitored. The Council also needs to review its approach to general inflation within services as price rises of over 10% will be difficult to contain within existing cash limits both in 2022/23 and following years. The MTFS assumptions have not incorporated a specific amount for this risk, but departments are able to put forward business cases for growth and service pressures that will be considered as part of the budget round, if they cannot contain these within their cash limit. It is recognised that further work is needed on inflation risks. An up to date assessment of these risks will be presented to Cabinet later in the year as part of the draft 2023/24 budget.

### **Demographic and Demand-Led Service Pressures**

- 4.12 Looking forward, besides general inflation, pay awards and contractual indexation, the Council needs to provide growth for unavoidable demographic and demand-led service pressures. The MTFS provides around £8m in 2023/24 and following years for the continuation of trends identified in 2022/23 or previous years; should increases be higher than the forecast trends, there is a risk that the current provision will prove inadequate.

### **Government Grants**

- 4.13 At present the Council's core grant funding consists of generally usable Revenue Support Grant (RSG - £25.8m in 2022/23), and specific grants for items such as for Public Health (PHG), the Improved Better Care Fund (iBCF) and Additional Social Care Funding (SCG). The MTFS assumes a small inflationary increase for RSG and PHG with a cash freeze for iBCF and SCG. Any inflationary increase may be inadequate to cover actual price rises experienced in the service areas. There are a number of other lower value grants which are also expected to remain frozen in cash terms.

- 4.14 Both the Improved Better Care Fund and Additional Social Care Grant have now been incorporated into the base budget. Previously, the Council's policy was to hold some of this funding as a central item and distribute it in-year as one-off expenditure. This was viewed as a prudent way to avoid overcommitting budget against grants that may not continue at their present levels. There has been no reduction in the level of these grants over time. The new policy is in line with that adopted by most councils. It does entail a risk, should these grants be reduced.
- 4.15 Whilst most grants are expected to continue at current levels, there is a question mark over the 2022/23 Services Grant. It is intended to pay for new burdens, such as the increase in employer's national insurance contributions, and these increases are clearly ongoing. The government has, however, made it clear that it intends to review the basis for allocating this funding and that the current level will not be protected. Given the expectation that the government will move much of this funding out of London as part of its "Levelling Up" agenda, the MTFs assumes that the Council will receive 75%-80% of 2022/23 amount in future years. This is prudent as it is unlikely that the government would cut a local authority's funding by more than 25%. This grant will be needed to address the effect of grants being either frozen or subject to below inflation indexation.

### **Council Tax**

- 4.16 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 £140.1m (or 43%) in 2022/23. In 2021/22, the government increased the referendum threshold limit from 4% to 5% (excluding the GLA share which is subject to their own decision making) but reduced it down to 3% for 2022/23.
- 4.17 As set out when the 2022/23 budget was agreed, there was an implicit assumption from the Department for Levelling Up, Communities and Housing (DLUCH), built into 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 2022/23, 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 8.8% in 2022/23 to provide additional funding for the Metropolitan police and Transport for London.
- 4.18 Furthermore, it continues to be acknowledged that continued historic above inflation rises in Council Tax is difficult for some households and for that reason the council continues to fund a Council Tax Support scheme support for households who are financially vulnerable. In 2021/22 £31m was provided to around 28,000 households, and increase of £3m from pre-pandemic levels. 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. 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.

- 4.19 The current budget assumptions for 2023/24 have taken a prudent view and assumed that government will maintain the current referendum limit of 3% (of which 1% is the Adult Social Care Levy). 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. 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.
- 4.20 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.
- 4.21 Other considerations that need to be taken into account when setting Council Tax, such as assumed tax base growth, the long term collection rate and the cost of the Council Tax Support scheme will be set out for Cabinet when the draft budget proposals are published later this year.

### **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 £62.0m in 2020/21 and £26m in 2021/22 compared to the amount received during 2019/20. In addition, the Council has administered direct grants, funded by central government, to local businesses totalling £137m across over 13,500 businesses. This is in addition to support provided to businesses as part of that Council's Recovery Initiatives. The Council continues to engage with the business community to ensure that those eligible businesses have access to this support.
- 4.23 The government allocate Business Rates back to Brent based on their assessment of need (the Baseline Funding Assessment) and the actual Business Rates collected. Brent receives a top up as need is in excess Business Rates collection. The MTFs assumes that there will be a small inflationary increase in the allocation of business rates. It is unlikely that the inflationary increase will match actual level of inflation and this will create a further budget pressure.
- 4.24 As considered in detail as part of the 2022/23 budget, the Government has allowed Local Authorities with a geographic link to form a business rate pool.

The settlement confirmed the Eight Authority Business Rates Pool (involving the City of London Corporation as well as Tower Hamlets, Hackney, Haringey, Waltham Forest, Brent, Barnet and Enfield) is able to proceed in 2022/23. 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.

- 4.25 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. 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 even at this stage it is not deemed prudent to build this potential additional income into the base budget and to place reliance for funding on a future income stream that is in no way guaranteed

## **5.0 Proposed budget setting process for 2022/23**

- 5.1 The proposed budget setting process following this Cabinet meeting is as follows:
- Cabinet October 2022. This report will present the budget proposals to be formally consulted on to set the 2023/24 budget;
  - The proposals, together with any changes made by Cabinet, will form the basis of consultation between October 2022 and January 2023 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 2022; and
  - After the statutory processes of consultation, scrutiny and equalities have concluded, a draft budget will be presented to Cabinet to recommend a final budget and Council Tax to the February 2023 Council meeting.

## **6.0 Capital programme**

- 6.1 In 2021/22 the Council spent £165m of the £222m approved budget with £56.9m slipped in to future financial years as outlined in Table 1.

<b>Portfolio / Programme</b>	<b>Budget as at Feb 2022</b>	<b>Final Budget 2021/22</b>	<b>Outturn</b>	<b>Over / (Under) Spend to Budget</b>	<b>2021/22 Slippage C/FWD</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Corporate Landlord	18.97	18.97	10.02	(8.95)	(8.95)
HCIB - GF	51.96	51.96	39.21	(12.75)	(12.75)
HCIB - HRA	58.52	58.52	50.58	(7.94)	(7.94)
PRS I4B	24.55	24.55	19.95	(4.60)	(4.60)
Public Realm	25.26	25.26	14.84	(10.42)	(10.42)
Regeneration	11.74	11.74	8.42	(3.32)	(3.32)
Schools	10.75	10.75	7.18	(3.57)	(3.57)
South Kilburn	17.92	17.92	13.99	(3.93)	(3.93)
St Raphael's	2.59	2.59	1.18	(1.41)	(1.41)
<b>Grand Total</b>	<b>222.26</b>	<b>222.26</b>	<b>165.37</b>	<b>(56.89)</b>	<b>(56.89)</b>

- 6.2 The 2021/22 outturn position was lower to the revised budget by £56.9m. Further details on the outturn position are contained within the Financial Outturn Report for 2021/22. It is proposed that this is re-profiled into 2022/23 and future years, as set out in the table below

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>2021/22 Underspend</b>	56.89	-	-	-	-	56.89
<b>Cabinet Approved Budget</b>						
Housing GF New Affordable Homes	4.34	4.34	4.34	4.34	4.34	21.70
Housing HRA New Affordable Homes	23.26	23.26	23.25	23.25	23.25	116.27
<b>Additional New Budget</b>						
New S106 and NCIL Projects	1.91	0.45	-	-	-	2.36
Additional Grant funding for Transport	0.41	-	-	-	-	0.41
<b>Budget re-profiling</b>						
Regeneration projects - Wembley Housing Zones	(27.49)	-	-	27.49	-	0.00
Regeneration projects - Morland Gardens	(5.50)	5.50	-	-	-	0.00
Regeneration projects - Medical Centres	(2.30)	2.30	-	-	-	0.00
Regeneration projects - Harlesden High Street	(0.31)	0.31	-	-	-	0.00
Public Realm including RLS Vehicle Purchase	(3.13)	3.13	-	-	-	0.00
SCIL allocation for Youth Centre	(2.15)	2.15	-	-	-	0.00
HRA budget brought forward	0.99	(0.99)	-	-	-	0.00
Civic budget brought forward	0.08	-	(0.08)	-	-	0.00
<b>Budget Removals</b>						
Removal of School budgets for completed projects	(0.3)	-	-	-	-	(0.30)
<b>Total</b>	<b>46.70</b>	<b>40.45</b>	<b>27.51</b>	<b>55.08</b>	<b>27.59</b>	<b>197.33</b>

The budget adjustments set out in Table 2 include:

6.3 £56.9m slippage and underspend from 2021/22 set out in Table 1 above.

6.4 Budgets Approved by Cabinet since the 21/22 Budget Report

- £21.7m of funding for affordable housing in the General fund as part of the New Council Homes Programme Update.
- £116.3m of funding for affordable housing in the HRA as part of the New Council Homes Programme Update including Grand Union and purchase of affordable units for the NWCC South Kilburn Scheme.

6.5 Budget re-profiling

- The Regeneration realignment of the budget to the correct financial year includes projects for Wembley Housing Zones and Morland Gardens.
- The public realm re-profiling primarily relates to the Councils purchase of waste vehicles.
- There is also re-profiling of an SCIL allocation for a youth project moving it into 2023/24.
- There are small budget movements into 2022/23 from future years for the projects External Fabric Works and Adaptation to Council Properties to deal with overspends within the HRA programme.
- There is a small budget brought into 2022/23 from future years for the Civic Centre asset management project.

6.6 Budget Removals

- Removal of remaining budget for completed schools projects that have completed, allowing repurposing of the grant funding within the Schools Board.

The revised budget position for 2022/23 to 2026/27 is summarised in Table 3 below.

<b>Table 3 - Capital Programme Revised Budget 2022/23 to 2026/27</b>						
<b>Board</b>	<b>2022/23 Revised Budget</b>	<b>2023/24 Approved Budget</b>	<b>2024/25 Approved Budget</b>	<b>2025/26 Approved Budget</b>	<b>2026/27 Approved Budget</b>	<b>Total 2022/23 to 2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Corporate Landlord	14.95	53.33	22.52	0.00	0.00	<b>90.80</b>
HCIB - GF	101.7	28.66	59.81	8.89	4.34	<b>203.40</b>
HCIB - HRA	79.33	57.27	42.31	23.25	23.25	<b>225.41</b>
PRS I4B	24.35	18.60	0.00	0.00	0.00	<b>42.95</b>
Public Realm	21.39	12.29	5.15	6.00	0.00	<b>44.83</b>
Regeneration	16.20	75.10	63.74	27.49	0.00	<b>182.53</b>
Schools	11.59	26.25	14.00	0.00	0.00	<b>51.84</b>
South Kilburn	26.41	10.44	9.89	2.78	11.52	<b>61.04</b>
St Raphael's	3.61	0.00	0.00	0.00	0.00	<b>3.61</b>
<b>Total</b>	<b>299.53</b>	<b>281.94</b>	<b>217.42</b>	<b>68.41</b>	<b>39.11</b>	<b>906.41</b>
<b>Approved Feb 22</b>	252.83	241.49	189.91	13.33	11.52	<b>709.08</b>
<b>Budget Adjustments</b>	46.7	40.45	27.51	55.08	27.59	<b>197.33</b>

### **Capital Pipeline**

- 6.7 The programme agreed by Council in February 2022 included £419.9m 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.
- 6.8 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.
- 6.9 Since February an additional scheme has been added relating to the redevelopment of the Alperton community centre, increasing the total pipeline figure by £0.8m to £420.7m.

### **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 2022/23, the average rent currently sits at £123.61 per week, an increase of 4.1% when compared to the previous year. Considering present inflationary trends, if the Council follows the current rent policy and a similar increase is applied for 2023/24, this would result in an average rent per week of £128.68 and give the potential to raise an additional £2.1m per annum for the next 2 years.

7.4 HRA rent setting needs to be considered in the context of the ring-fence and the 30-year business plan. The CPI plus 1% model not only helps to contain higher costs as a result of inflation, it also 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 £2.1m increase in rent has the effect of an additional £63m 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. High levels of uncertainty around the inflation and rising interest rates pose a financial risk to the HRA. This has an impact on the cost of materials and repairs, as well as the cost of new build contracts. Rising energy costs are to be passed on to tenants and leaseholders resulting in an increased risk of non-collection. In addition, rising cost of living is likely to impact rent collection rates and consequently result in increased rent arrears. Other pressures involve the capital programme as there is no new government funding having been made available to meet environmental priorities and requirements such as carbon reduction works to homes. The increased costs experienced by the HRA would have to be met by rent inflation and modifying service delivery, in addition to the annual saving targets which are incorporated into the medium-term financial plan.

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 Brent school budgets are under considerable pressure due to rising costs and additional costs due to the impact of the Covid pandemic. The primary schools in the borough are also impacted by reducing funding levels because of falling rolls, as pupil numbers mainly drive school funding. There are currently 6

schools in deficit and more schools are having to take action now and undertake restructures to prevent themselves going into deficit.

8.2 At the end of 2021-22, the overall DSG deficit in Brent has increased to £15.1 million following an in-year deficit of £4.6million added to the brought forward deficit of £10.5m, which began in 2019-20. This cumulative deficit is against the High Needs Block (HN), which has come under increased pressure in supporting children with special educational needs.

8.3 The increasing number of children with Education, Health and Care Plans (EHCP), has driven the cost pressures in the HN block. The table below shows the trend over the past 5 years.

	<b>January</b>	<b>January</b>	<b>January</b>	<b>January</b>	<b>January</b>
<b>Financial Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Number of EHCP</b>	2,076	2,173	2,426	2,784	2,938
<b>Brent Year on Year % Increase</b>	6%	5%	12%	15%	6%
<b>National Year on Year % Increase</b>	11%	11%	10%	10%	10%

8.4 The cumulative deficit of £15.1million will be carried forward to 2022/23 and Brent has a Deficit Recovery Management Plan in place with longer-term actions to recover the deficit and a task group has been set up by the council to coordinate and monitor these actions. Some of these actions to reduce costs include developing Alternative Provision education in the borough, increasing the amount of special provision within the borough, particularly for secondary phase pupils and 16-25 year old SEND students. A combination of these longer-term recovery actions and anticipated funding increases will reduce the deficit.

8.5 The statutory override in place to carry forward a deficit balance against the DSG would end in 2022/23 and this is a risk for Brent if the expectation is that local authority's balances should cover the deficit.

8.6 In 2021/22, the majority of local authorities in London had forecast DSG deficits exceeding £300 million in total. Nationally the pressure exceeded £1 billion in 2020/21. In response to this, the DfE has set up two programmes to tackle the pressures in the high needs system and for it to be placed on a sustainable footing. These are;

- The Safety Valve programme with an investment of £300m for authorities with very high deficits. There are currently 14 authorities on this programme;
- Delivering Better Value (DBV) in SEND programme, an £85 million investment over 3 years to support 55 authorities in deficit. Brent has been invited by the DfE to be part of the first tranche of 20 authorities and the programme is planned to commence in June 2022.

8.7 The DBV programme will run in three tranches and will comprise two phases. The first phase will take 6 months and comprise a comprehensive review of

processes, data, underlying cost drivers and the existing DSG Management plan. Actions plans will be agreed as part of the review with the authorities and the second phase will commence lasting 18 months for the implementation of the action plans. The appointed delivery partner, SEND advisers and Financial Advisers, will undertake the review.

## **9.0 Financial Implications**

9.1 The financial implications are set out throughout the report.

## **10.0 Legal Implications**

10.1 Standing Order 24 sets out the process that applies within the Council for developing budget and capital proposals for 2023/24. 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.

## **11.0 Equality Implications**

11.1 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.

11.2 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.

## **12.0 Consultation with Ward Members and Stakeholders**

12.1 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 2022.

## **13.0 Human Resources**

13.1 Not applicable.

**Report sign off:**

***Minesh Patel***  
Director of Finance