


# Appendix 2

 <b>Brent</b>	<b>Cabinet</b> 14 November 2022
	<b>Report from the Corporate Director of Finance and Resources</b>
<b>Draft Budget 2023/24</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Key
<b>Open or Part/Fully Exempt:</b>	Open
<b>No. of Appendices:</b>	Two Appendix A Summary of new 2023/24 budget proposals Appendix B Detailed budget templates for new 2023/24 budget proposals
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> (Name, Title, Contact Details)	Minesh Patel Corporate Director of Finance and Resources Email: <a href="mailto:minesh.patel@brent.gov.uk">minesh.patel@brent.gov.uk</a> Tel: 020 8937 4043  Rav Jassar Deputy Director of Finance Email: <a href="mailto:ravinder.jassar@brent.gov.uk">ravinder.jassar@brent.gov.uk</a> Tel: 020 8937 1487

## 1.0 Purpose of the Report

- 1.1. The purpose of this report is to set out the Council's budget proposals for 2023/24. It also provides a general update on the Council's overall financial position, including an overview of the current economic outlook.
- 1.2. This report renews the Medium Term Financial Strategy (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.

- 1.3. It should be recognised, however, that forecasting over the medium term is extremely difficult. There is a high level of uncertainty due to high levels of inflation, economic turmoil resulting from war in Ukraine, the Government's short-term funding settlements, delays in funding reforms, the effects of the cost of living crisis on residents and businesses in the borough and the impact of Brexit.
- 1.4. The report outlines the approach being taken to address the budget gap expected to result from demographic and inflationary pressures. As the economic environment remains challenging, it is extremely difficult to make a full, definitive and comprehensive assessment of the potential financial impacts. The figures in this report are based upon best estimates and forecasts, which will be subject to change. 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.
- 1.5. As reported to Cabinet in July 2022, due to the issues identified above, the budget gap between 2023/24 and 2024/25 is estimated at £28m, which is the central case based on current budget assumptions and scenario modelling. The accuracy of this is probably at best +/- 20%, and wider variations are entirely plausible. The actual figure required will not be known until a longer term Spending Review for Local Government is announced. The budget gap is profiled £18m next year and £10m the year after.
- 1.6. Given the high-level of uncertainty over the economic environment and the funding of local government, the Council has decided to restrict its budget proposals to a single year, rather than the two-year programme that was customary practice.
- 1.7. The Council has therefore now brought forward a series of new proposals totalling £18m which, if approved following consultation and scrutiny, would be implemented in 2023/24. These new proposals, and the updates to budget assumptions set out in this report, will enable the Council to set a balanced budget for 2023/24. Any material changes to circumstances, such as a worse than expected local government finance settlement, would need to be addressed via the use of reserves; conversely, favourable changes could mean that some of the savings proposals would not need to be implemented. The new savings proposals for 2023/24 are summarised in Appendix A and full details of each of the proposals are set out in Appendix B.
- 1.8. There remains significant uncertainty over local government funding in the medium term in the absence of a longer term Spending Review and the outcome of other significant reforms to Local Government funding, for example the Fair Funding review and reforms to the business rates regime. In addition, at the time of despatch of this report, it is expected that the autumn statement that will be delivered on 17 November 2022 will include both tax increases and public

spending cuts. In other words, another period of austerity for the public sector. As a result, further savings could be required in future years.

- 1.9. The new proposals for 2023/24 are designed to limit, as far as possible, service reductions and the impact on front line services particularly during these challenging times. This does not mean that delivering these planned savings, if approved, will be managerially straightforward, or that front-line services will be entirely unaffected, or that they can be achieved without staffing reductions.
- 1.10. In summary, the key features of the 2023/24 budget are:
  - A Council Tax increase of 2.99% (consisting of a 1.99% general increase plus 1% for the Adult Social Care Precept), making a Band D Council Tax of £1,461.96 (for the Brent element). The GLA precept is unknown at this stage and is subject to their own decision making and consultation processes.
  - New budget savings proposals of £18m to be delivered in 2023/24, as set out in Appendices A and B.
- 1.11. The process following this Cabinet meeting is: -
  - Proposals, together with any changes made by Cabinet, to form the basis of consultation between November 2022 and February 2023 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 2022, 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 2023 Full Council meeting.

## **2. Recommendation(s)**

- 2.1. That Cabinet notes the overall financial position.
- 2.2. That Cabinet agrees to consult on the new budget proposals, as set out in Appendices A and B.
- 2.3. That Cabinet agrees to consult on a Council Tax increase of 2.99% (consisting of a 1.99% general increase plus 1% for the Adult Social Care Precept) in 2023/24.
- 2.4. That Cabinet endorses the approach to the statutory process of consultation, scrutiny and equalities between November 2022 and February 2023, as set out in section eight of this report.
- 2.5. That Cabinet endorses the changes to the technical budget assumptions underpinning the budget, as set out in section four of this report.
- 2.6. That Cabinet notes the position with regard to the funding for Schools and the Dedicated Schools Grant, as set out in section nine of this report.

- 2.7. That Cabinet notes the rent increase for 2023/24 will be subject to the outcome of the government consultation on the proposed rent cap, as set out in section ten of this report.
- 2.8. That Cabinet notes the position with regard to the Capital programme, as set out in section eleven of this report.

### **3. Strategic Financial Overview**

#### **Financial Context**

- 3.1. In February 2022, Council agreed the budget for 2022/23 which included £2.7m of savings. The report also forecast that savings in 2023/24 and 2024/25 would total £12m. Dramatic changes in the economic environment since then has forced the two-year savings target to rise to £28m of which £18m have been allocated to the 2023/24 Budget. These savings will be in addition to the £196m removed from the Council's budget since 2010 as a result significant reductions in government funding and the challenges posed by new legislation, at a time when demand for key services is rising and COVID-19 continues to have an impact on the Council's finances and services.

#### **Current financial position**

##### *Uncertain Economic Environment*

- 3.2. War in Ukraine, the enduring impact of COVID-19, Brexit, high levels of inflation, labour shortages and rising interest rates present the Council with a volatile and uncertain economic environment. The cost of living crisis will impact the residents of Brent and the Council is committed to doing what it can to support those in greatest need. Service demand continues to rise due to demographic changes which affect all age groups, with particular pressures on adults' and children's social care and the homelessness budget.

##### *Inflation*

- 3.3. In part as a result of the war in the Ukraine causing a spike in energy prices, inflation is running at high levels not seen since the 1980s. Besides rising energy costs other goods are also experiencing increases in prices, due to factors such as labour shortages, pay rises, logistics issues and a general trend to increase prices and restore profit margins where previously slumps in demand had suppressed price levels.
- 3.4. In September 2022 CPI stood at 10.1% against a Bank of England target of 2%. RPI, which is often used as the basis for indexation in contracts, was at 12.6%. The September inflation figures are important as they are normally used for the uprating of much central government expenditure including pensions (under the triple lock) and other welfare payments. The local government finance settlement sets out the governments assumptions on the level of resources available to local government, which it terms Core Spending Power (CSP). The government usually uprate local government resources by the September CPI figure and this increase applies to government grants. Should the government restrict inflation increases to the 2021 spending review levels, this will be only 3% - potentially

7% below actual inflation rates measured by CPI. For the Council this would mean CSP is £21m less than it would have been - £11m is attributable to retained Business Rates, Revenue Support Grant and other grants and £10m of Council Tax rises (if they were to increase at a rate of 10%).

#### *Interest Rates*

- 3.5. Having remained at 1% or less since February 2009, interest rates began rising in June 2022. Initially this was in response to rising inflation with the Bank of England using rises in borrowing costs as a means to stifle demand in the economy. More recently, the run on the pound and the potential collapse of some private sector pension schemes have prompted spectacular increases in the costs of government borrowing with gilt yields reaching their highest level since 2008.
- 3.6. For the Council, this translates into higher costs of borrowing which in turn will have an adverse impact on the capital programme. For Brent residents, rising interest rates will add additional costs to the holders of existing mortgages, while a higher stress test for affordability (for many mortgages as higher as 8% interest rates) and the withdrawal of higher loan to value mortgage products (meaning a higher deposit is required) will act as barriers to first time buyers.
- 3.7. The markets are pricing in base rate rising to between 5% and 6% over the next few months. Whilst this is uncertain, it is highly unlikely that in the near future interest rates will return to the historically low levels at which they have been for the last decade.

#### *Cost of Living Crisis*

- 3.8. Since late 2021, the UK has experienced a rise in the costs of living for individuals and businesses. For many Brent residents, this means having to make difficult decisions on how they spend their income, which can have a negative impact on their standard of living.
- 3.9. In a recent attitudes survey by YouGov for the GLA, 90% of Londoners surveyed said their cost of living had increased to some extent in the last 6 months, while 65% said their energy bills had increased a lot, and 47% said they were struggling with mortgage or rent payments. Of those surveyed, the groups that were most likely to say their costs had risen a lot included Black and Asian Londoners, social renters (from housing association or Council), and those whose daily activities were considerably limited by health problems or disabilities.
- 3.10. This analysis resonates with the Council's own Resident's Attitudes Survey, conducted in 2021 to inform the Borough Plan, which found almost a quarter of residents said their financial situation had got worse.
- 3.11. The Council has a number of initiatives aimed at supporting residents who may be struggling and enabling Brent and partner organisations to best respond to local needs. These include:

#### Financial support

- The **Brent Resident Support Fund (RSF)** has been in place since August 2020. In the period August 2020 to 15 August 2022, RSF has supported

4,045 households with a total of £8.46 million. The support provided is for help with the cost of living. This can include, but is not limited to, household bills, arrears in rent, mortgage, Council Tax, food, fuel, digital equipment and emergency funds. Urgent assistance is provided when residents are at risk of losing their home and when an application to the RSF is unsuccessful, the applicant is referred to a credit union for help with an interest-free loan. Further support is provided through signposting to other internal (e.g. Brent Hubs) and external (e.g. Citizens Advice) services.

- During 2022/23 Brent has also supported 94,000 households with a £150 rebate, funded from government grants, to help with the cost of energy bills.
- **Council Tax Support (CTS):** 27,597 households are supported through CTS of which 18,999 are working age and 8,598 are pension age. Pension age residents are entitled to full Council Tax support depending on their income, savings and household composition. The total support given to households is around £32m per annum.

#### Food and energy support

- **Brent Hubs** work with residents who find it difficult to access the support they need through mainstream services. This includes issuing vouchers to residents in need of urgent food and fuel support, as well as making referrals to food aid agencies and support schemes for utility costs. Since January 2021, over 6,500 residents have accessed Hub services. Over the same period, the Hubs provided food and fuel vouchers.
- The most common needs which residents present with at the Hubs are food and fuel support (23%), housing costs (17%), homelessness (13%), form filling – such as RSF applications - (13%), debt and money (9%), welfare benefits (8%), and other, for example, employment, general support, immigration etc.(17%).
- The Government's **Household Support Fund (HSF)** has been used to provide support to Brent households with the cost of food and fuel in the form of food and fuel vouchers, grants, and financial support to food aid organisations. The HSF is a follow-on fund from the previous COVID-19 Winter Support Fund and COVID-19 Local Support Funds, which had been in place since December 2020.

#### *Financial Inclusion Dashboard*

- 3.12. Measuring impact will improve the Council's understanding of the effects of the Cost of Living crisis on the borough, and will shape how effective collective efforts are in helping to mitigate any negative impacts. The main mechanism for measuring impact is a financial inclusion dashboard developed by the council. The dashboard allows strategic level staff to monitor high-level statistics, such as Housing Benefit caseload, Council Tax outstanding and Resident Support Fund granted to support operational decisions, with a ward level breakdown of each statistic, which allows senior staff to identify discrepancies between wards and highlight areas for targeted action.

- 3.13. The dashboard uses underlying data gathered from our source systems to match and identify residents that are known to the Council in different systems. This provides a more holistic view of demand and helps identify those residents most in need.
- 3.14. Phase 2 development of the dashboard will consider multiple new indicators, which will enable us to target and monitor resources with respect to the Cost of Living crisis. Proxy indicators will be used to allow the Council to make targeted decisions in mitigating the crisis using internal council data to identify residents in need.

*Energy Price Cap (Consumers and Businesses)*

- 3.15. In light of the recent increase in the cost of wholesale gas, the price suppliers need to charge per unit of energy has gone up significantly.
- 3.16. To help protect consumers, the Government has announced the Energy Price Guarantee which came into effect on 1 October 2022. This new scheme will reduce the unit cost of electricity and gas so that a household with typical energy use in Great Britain pays, on average, around £2,500 a year on their energy bill, for the next 2 years. [Revised by the Chancellor on 17 October to April 2023 with a Treasury review of on-going support for targeted groups beyond this point.] On average usage, a household will save £1,000 a year (based on current prices from October). Energy suppliers will be fully compensated by the government for the savings delivered to households.
- 3.17. For an individual customer, the amount paid under the Energy Price Guarantee will vary depending on how much energy they use, where they live, how they pay for their energy and their metering arrangement. The £2,500 figure is based on a household with typical consumption on a dual electricity and gas bill paying by direct debit.
- 3.18. On 1 October, the Department for Business, Energy & Industrial Strategy (BEIS) updated the guidance on the Energy Bill Relief Scheme for businesses and other non-domestic customers.
- 3.19. The scheme provides support for everyone on a non-domestic contract which is either a fixed price contract agreed on or after 1 April 2022; a new fixed contract being signed; a deemed or variable tariff; or a flexible purchase / similar contract. Local authorities fall within its scope as “public sector organisations such as schools, hospitals and care homes”.
- 3.20. The scheme does not cap unit costs, which include network charges and operating costs, but is applied to “the estimated wholesale portion of the unit price”, which will be capped at £211 per megawatt hour for electricity and £75 per megawatt hour for gas. The guidance notes that current forecasts for market prices this winter are £600 and £180 respectively.
- 3.21. The scheme applies for six months, from 1 October to 31 March and is due to be reviewed within 3 months. The guidance indicates that support will likely only continue for “the most vulnerable non-domestic customers” and highlights that “It is important that users who are less vulnerable to energy price increases

(particularly larger businesses that are not energy-intensive) use the 6 months support provided by the scheme to identify measures they can take to protect themselves against high energy prices”.

- 3.22. Rising energy costs is a significant challenge to the Council, even with the six-month price cap. Although on a new energy contract, the impact this year is estimated at around a £2m rise in costs.

## Government Fiscal Events

### *September Mini-Budget*

- 3.23. The Mini-Budget confirmed many measures that had been previously announced (Corporation Tax increase from 19% to 25% will not be implemented and the Health and Social Care NIC rise will be reversed) and also included some new measures. This was the biggest tax cutting budget since 1972 – bigger than Nigel Lawson’s 1988 budget by 50%, according to the Institute for Fiscal Studies (IFS).
- 3.24. Measures to cap energy costs were confirmed, but at the same time the Chancellor introduced new welfare to work penalties on benefits for claimants who do not meet their obligations to seek employment.
- 3.25. Headline measures on tax were a cut in basic rate income tax to 19% from April 2023 (a year earlier than expected), abolition of the 45% additional rate tax band and the repeal of IR35 reforms made in 2017 and 2022.
- 3.26. The Mini-Budget was poorly received by the markets. This sparked a run on the pound and substantial increases in borrowing costs. It also forced the Bank of England to launch a £65bn scheme to buy back gilts to protect the pension funds. It has since made multiple interventions in markets to calm spooked investors. Outcry at the abolition of the additional rate tax band resulted in a U-turn reversing this measure at a saving £2bn.
- 3.27. The Mini-Budget was silent on public sector spending plans.
- 3.28. As a result of the turbulence caused by the Mini-Budget’s unfunded tax cuts, government ministers indicated that they intend to cut public expenditure to bridge the original £45bn budget gap, since reduced to £43bn. This failed to head off further troubles in the financial markets and political unrest amongst the parliamentary Conservative party. As a result, Kwasi Kwarteng was dismissed as Chancellor. His replacement, Jeremy Hunt, became the fifth Chancellor of this government.

### *Chancellor statement on the Medium-Term Fiscal Plan (17 October 2022)*

- 3.29. The new Chancellor announced in a major U-turn that he was scrapping virtually all of the tax measures announced in the Mini-Budget. Only those already enacted (the reversal of the NIC increase, the reduction in stamp duty and the removal of the limits on bankers’ bonuses) remained in place. In a significant change of direction, the Chancellor announced that instead of bringing forward the reduction in base rate from 20% to 19% from April 2024 to April 2023 as announced in the Mini-Budget, he was putting this measure on hold "indefinitely until economic circumstances allow for it to be cut".



- 3.30. In a further U-turn, the energy price cap for consumers was restricted as a universal benefit to a period of six months (ending in April 2023) rather than the two years in the Mini-Budget. The Treasury will review options for future support, which may be targeted at poorer and more vulnerable households. The Chancellor's rationale for this change was that "it would not be responsible to continue exposing public finances to unlimited volatility in international gas prices".
- 3.31. The Chancellor brought forward no specific proposals relating to public spending, but did say that "All departments will need to redouble their efforts to find savings and some areas of spending will need to be cut." Mr Hunt added that there would be "more difficult decisions" on tax and spending. The Institute for Fiscal Studies (IFS) estimates that the size of the cuts needed to balance the books over the next five years are only "slightly smaller" than those imposed by George Osborne's austerity measures in 2010.
- 3.32. The Mini-Budget contained £45bn of unfunded tax measures; however, the IFS have calculated that substantial increases in gilt rates as a result of the market reaction to this potential funding requirement have added a further £17bn of increased government borrowing costs, taking the funding gap to £62bn. The new Chancellor has made £32bn of tax U-turns, which in turn has resulted in an improvement in gilt rates reducing the cost of borrowing by £7bn, leaving a gap of £23bn to be found from cuts to public expenditure.

*Fiscal Statement (17 November 2022).*

- 3.33. The autumn statement was scheduled for 23 November in line with customary practice, but the previous Chancellor had brought forward his plan to balance the government's finances by three weeks to 31 October in a bid to reassure the markets. This has changed again and is now scheduled to be a Fiscal Statement setting out the government's medium term financial plan on 17 November.
- 3.34. There has been much speculation about public sector spending. Two measures widely mooted were not to update the inflation assumptions in the 2021 spending review (SR21) and to uprate welfare benefits only by average wage rises rather than the September inflation figure. Neither of these has been officially announced and there is considerable pressure to uprate Universal Credit by inflation rather than wage rises. Pensions are expected to remain covered by the triple lock, which will see a rise in line with September's inflation rate.
- 3.35. It is unclear whether the government will have any further spending reviews until the next general election, due by January 2025. Currently SR21 assumes inflation of about 3%. If the government uses this as the rate for indexing central government expenditure, it represents a substantial reduction on the amount that would have been required if the September CPI inflation figure (10.1%) were used. This is in effect a real terms cut in funding. A reduction in the inflation provision of 7% represents a 'saving' of £76bn on central government expenditure. These are very broad assumptions – the government was only budgeting for 3% inflation so the 10% figure would have represented an unfunded increase that would have needed to be financed. On the other hand, the effect of higher levels of inflation is to raise government revenues, through increases in

VAT yield, extra personal taxation on higher levels of pay and additional corporate taxation on higher revenues and profits. An end result of a substantial saving may not therefore be unreasonable.

- 3.36. The appointment of Rishi Sunak as Prime Minister on 25 October 2025 has done much to calm the financial markets. The new Prime Minister decided to delay the medium term fiscal statement from 31 October to November 17 to allow the Chancellor to rework his plans. An analysis by the Resolution Foundation shows that the fortnight delay is expected to shrink the size of the black hole in the public finances by up to £15 billion. Without knowing the new taxation and spending policy, the Bank of England raised the base interest rate on 3 November by 0.75% to 3%. With the interest rate paid on government gilts falling rapidly - and the international gas price reducing - there is growing confidence in Downing Street that more minor changes to the public finances may be necessary.

*Local Government Finance Settlement (expected in December 2022)*

- 3.37. It is not yet known when the provisional Local Government Finance will be announced, but past experience suggests that this will happen in mid- to late-December.
- 3.38. The starting point of the Local Government Finance Settlement (LGFS) is Core Spending Power. This is a measure of the resources available to local authorities to fund service delivery. It includes Council Tax and locally retained Business Rates, a number of generally usable government grants and the Revenue Support Grant. Normally, Core Spending Power is increased in total by the September CPI rate. The government then calculates the income available to the local authority by assuming that it sets the Council Tax at the referendum limit, receives the local share of indexed Business Rates and inflated government grants (including any changes to the level of funding). The level of Revenue Support Grant is then set as the balancing figure to bring total funding in line with the Core Spending Power figure.
- 3.39. If the government retains the provisions of the 2021 spending review, these include a headline 3% inflationary increase in local government Core Spending Power for each year. In 2022/23 that included £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). Removing the funding for the social care reforms, the local government increase was actually 1.8% compared to 3.3% for the average government department. The Council will need to see if this pattern continues into 2023/24.
- 3.40. The 2022/23 headline announcement that Core Spending Power will increase by 3% each year assumed that all Councils will increase Council Tax by the maximum amount allowable of 2.99% without triggering a referendum. The Council will need to see whether the government changes the referendum limit and the extent to which any new money is tied to social care reforms, meaning other services will benefit less.
- 3.41. At present the MTFS assumes that government funding will increase by 3% in 2023/24 and that the Council will increase Council Tax by the maximum of 2.99% allowed by an unchanged referendum limit. Given that 1% of this will be the social

care precept, the actual increase for most Council services will be 1.99% - a real terms cut of around 8% if inflation is running at 10%. If the increase in Core Spending Power were only 2%, this would lead to a loss of around £3m in resources.

- 3.42. In the event that the referendum limit for Council Tax is higher than 2.99%, the proposal will be considered in the round alongside other announcements on government grant funding. As mentioned earlier in the report, the autumn statement that will be announced on 17 November 2022 may include both tax increases and public spending cuts, potentially marking a return to austerity.

#### *Outlook for Future Government Funding*

- 3.43. The MTFS model assumes that government funding and Council Tax will each increase by 3% in future years. If inflation remains at significantly above this level, this will cause a real terms cut in resources. Service pressures caused by increased demand resulting from the cost of living crisis and demographic pressures will put further pressure on the Council's budget leading to a need for substantial savings in future years.

### **Administration Priorities**

- 3.44. The budget process is designed to ensure that it is priority led so that resources are aligned with council priorities and statutory responsibilities. A four-year Borough Plan (2023-2027) is due to be developed during 2022/23. This gives the Council the opportunity to refresh its vision and ambitions and to show how it will work with local communities over the next four years to deliver them.
- 3.45. The draft Borough Plan has the following Strategic Priorities and Desired Outcomes:

#### **Prosperity, Pride and Belonging in Brent**

1. *Easing the Cost of Living Crisis*
2. *Brent for Business*

#### **A Cleaner, Greener Future**

1. *A Cleaner and Safe Borough*
2. *Empowering our Communities*

#### **Respect and Renewal in Brent**

1. *Safe, Secure and Decent Housing*
2. *A Sustainable Borough and a Greener Economy*
3. *Keeping Brent on the Move*
4. *A Representative Workforce*

#### **The Best Start in Life**

1. *Raised Aspirations, Achievement and Attainment*
2. *Young People are Seen and Heard*

#### **A Healthier Brent**

1. *Tackling Health Inequalities*
2. *Localised Services for Local Needs*

- 3.46. Officers have developed an engagement plan which will run in November and January, ahead of finalising the Borough Plan in February. The engagement will be delivered over a period of ten weeks where the Council will target a range of

specific groups, utilising partnerships, stakeholders and Members. The engagement will also align with plans to consult on the draft budget, this is to help contextualise the draft ambitions within the resources available and to ensure the final ambitions are reflective of the resources available. The Medium Term Financial Strategy will also need to ensure it provides a framework to enable and support the delivery of the Council's ambitions, priorities and any subsequent or existing programmes, considering the significant financial pressures the Council is currently facing.

#### **4. Review of Key Budget Assumptions**

##### **Overview of Current MTFS**

- 4.1. The General Fund revenue budget for 2022/23 was set at the Council meeting of February 2022, where savings of £2.7m were agreed. These savings are on track to be delivered. Expenditure in 2022/23 should also be within budget for the General Fund with the exception of a projected overspend of £1.7m in the Children's and Young people's department. Work is being undertaken on management action that will bring this expenditure back in line with the budget.
- 4.2. Looking beyond 2022/23, there are a number of factors that need to be taken into account in setting the budget 2023/24 and determining the financial outlook for future years.

##### **Departmental pressures**

- 4.3. Managing ongoing demand-led pressures remains a key aspect of the MTFS. The existing annual growth assumptions are in fact estimated increases in unavoidable expenditure. Those built into the MTFS cover areas such as contract inflation, pay inflation, and demographics (by which is meant meeting the cost of providing existing services for a growing and changing population). These expenditure assumptions represent the annual costs that have to be incurred just to stand still.
- 4.4. As the two areas most affected by the changes in demography and increasing contractual costs, the Adult Social Care and Children's and Young People's departments undertook scenario and sensitivity analysis of the effects of different levels of inflation and demographic change. This determined a central case (that is a position between possible best and worst cases), which has been used as the basis of the contract inflation and demographic changes in these areas. A summary of these growth and cost pressures are shown in the table below.

Table 1: Existing Growth / Cost Pressures

<b>GROWTH SUMMARY</b>	<b>2023/24</b>
Demographics	
- ASC	3.73
- CYP	1.47
- Other Departments	1.30
Sub-total	6.50
Inflation	
- ASC	7.76
- CYP	3.06
- Contracts	3.83
Sub-total	14.66
Pay	6.50
Other (E.g. Public Health Grant inflation)	0.70
	<b>28.35</b>

- 4.5. The following sections provide commentary on the service pressures and other challenges faced by each department.

#### **Adult Social Care and Health**

- 4.6. Within Adult Social Care a key area of uncertainty is the fair cost of care and social care reforms. Work is ongoing to better understand the impact of the fair cost of care, the care cap and the number of self-funders coming forward which will create additional burdens. Whilst government funding is being made available to Brent in 2022/23 and future years, it is unknown at this moment in time whether this funding is enough to afford the market sustainability costs and implementation costs. Underfunded reforms run the risk of also exacerbating the workforce pressures being seen within Adult Social Care with staffing shortages and rising vacancy numbers across the sector. The reforms will create additional pressures on the Adult Social Care service due to the increased number of care assessments required.
- 4.7. By 2025/26, the budget gap between funding available and demand in ASC could be an additional £45m required to cover demographic (such as transitions and growth in elderly population) and inflationary pressures, as well as LLW commitment.
- 4.8. Ongoing financial government support & market sustainability is an uncertainty, particularly with the ongoing cost of living crisis and inflationary pressures. The cost of living crisis and the steep rise in inflation, heating and fuel costs are likely to have an impact on spot placement requests from providers who are looking to recover some of the additional costs they are incurring. For 2022/23, the Adult Social Care budget was increased in order to meet projected demographic

growth demand and inflationary increases, these increases are expected to continue and be a pressure in future years.

- 4.9. Hospital Discharge (D2A) funding is coming to an end in 2022/23. Funding was made available to continue to D2A funding for part of the current year, and there has been ongoing discussions between the LA's and Integrated Care Boards (ICB) around future funding. In September the new Health Secretary announced £500m of discharge funding but it is still unknown at this stage.
- 4.10. The growth set out in Table 1 is primarily based on taking the central case following a series of scenario analyses and sensitivity analyses on various budget assumptions. Specifically, they arise from demographic pressures which have been calculated by extrapolating trends over recent years and inflation where upward pressures on contract values and spot purchase prices have been used to calculate the future indexation requirement. At this stage of the budget setting process this growth is deemed as reasonable to contain the financial pressures expected in 2023/24.

### **Children and Young People (CYP) General Fund**

- 4.11. There continues to be increased spend in the General Fund of the CYP department due to the impact of rising demand for placements and high inflationary cost increases, risk of loss of health contributions and the reliance on agency Social Work staff due to recruitment and retention challenges.
- 4.12. Across the CYP department, there has been an increase in the number of children and young people receiving support. This increased demand for services follows from a 15.2% rise in the rate of referrals for social care services in August 2022 through the Brent Family Front Door (BFFD) compared to August 2021. As a result, since the end of the last financial year, there has been an 8.4% rise in the number of cases. The number of cases increased from 2,737 in August 2021 to 2,967 in August 2022. Caseloads are exceeding the budgeted level of c2,500 by 18.7%. Alongside the increase in overall caseloads, which is also in line with national trends, there has been an increase in complex cases, evidenced by an increase in children subject of a Child Protection Plan with the current number of 413 the highest in the last 10 years in Brent.
- 4.13. After a period of relative stability in the Looked After Children (LAC) population at between 280 and 300 children before the COVID-19 pandemic, there has been a 15.8% increase in the number of Looked After Children (LAC). Between August 2021 and August 2022, the number of LAC increased from 297 to 344. The Unaccompanied Asylum Seeking Children (UASC) currently represents 16.9% of the LAC population. Although grant funding is received from the Home Office to mitigate the costs, pressures arise, as the funding is not sufficient to cover costs such as specialist age assessment social workers, legal costs, additional personal advisors to manage cases, and increased subsistence costs. In addition, a larger cohort of UASC are older and when they turn 18 years, the funding reduces significantly from £143 per day to £38.57 per day.
- 4.14. The average weekly cost of a residential placement is £4,631, which is £191 higher than the 2021/22 average. The impact of inflation is likely to see the weekly

costs increase further in 2023/24. In 2022/23, six residential placements with complex needs weekly costs, ranged from £7,300 to £13,000 and the local authority has recently placed a child in a placement at £20,000 per week. These costs reflect the challenging placements market, which is a national issue and is causing significant budgetary pressures. Due to the current economic climate, inflationary pressures are expected to be passed onto the service by providers, with 9-15% increases being requested in some cases.

- 4.15. Health contributions from the Integrated Care Partnership mitigates some of the placement cost pressures and pressures on support for children with disabilities. With the implementation of the North West London Integrated Care System (ICS), a review of health contributions is taking place. For example, the Continuing Health Care Team is reviewing individual children's eligibility for funding, which for some is resulting in decisions that they no longer meet thresholds. Brent is not isolated in this issue and Directors of Children Services (DCSs) from LAs across the ICS footprint have collectively escalated their concerns to the ICS about the impact on local authorities of the Continuing Health Care Team's new operating model. Consideration will be given to appropriate legal redress if a satisfactory outcome cannot be achieved through other means. Through the Joint Funding Panel, the CYP department is also challenging decisions and their timing on a case-by-case basis.
- 4.16. Within the Localities, Looked After Children, and Permanency (LAC&P) services, there are challenges regarding the recruitment and retention of skilled and experienced social work staff with the services relying on agency staff whose costs are more expensive than permanent staff. Across the Localities team, agency staff occupy 44% of the establishment. If demand in cases continues to grow, this could create an added pressure in these areas. Management will continue to monitor the caseload levels and the use of agency staff while continuing the drive to recruit permanent staff.
- 4.17. The department continues to face pressures from the national challenge for the recruitment and retention of social workers, leading to a reliance on agency staff. A shortage of social workers and other case holding staff, which has further been exacerbated by the impact of the pandemic and rising demand, is an acknowledged national issue, which requires a coordinated regional approach over the medium term. CYP management will continue to take steps to improve the recruitment and retention of social workers.
- 4.18. The growth set out in Table 1 is primarily based on taking the central case following a series of scenario analyses and sensitivity analyses on various budget assumptions. Specifically, they arise from demographic pressures which have been calculated by extrapolating trends over recent years and inflation where upward pressures on contract values and spot purchase prices have been used to calculate the future indexation requirement. At this stage of the budget setting process this growth is deemed as reasonable to contain the financial pressures expected in 2023/24.

## **Communities and Regeneration**

### *Communities*

- 4.19. Over the past 18 months, Brent's population has seen notable changes in the numbers of refugees and migrants into the borough. The rising numbers are in part, due to changes in national guidance on Housing and Homelessness eligibility for new arrivals from Afghanistan and Ukraine. The ever changing guidance means that Brent is mandated to accept Homelessness applications from newly arrived refugees.
- 4.20. In these circumstances, additional strain is put on a number of services involved in assessing need, administering applications and the ongoing support those families are entitled to. We face additional burdens with an open Landlord scheme that will also add to our population, and is outside of our control. The changing population is likely to mean we will need to employ more temporary staff to cope with demand in a number of services including, Legal, Housing and the Migration Coordination Team. The emergent need is to increase our workforce with Community Support Officers to cope with demand.
- 4.21. The legacy of COVID-19 has meant that demand has risen for critical services delivered by our Voluntary and Community Sector partners, e.g. Independent Advice and Guidance services. This means that Brent and our partners are having to work harder to continue to provide much needed support to residents. For example, we are having to increase the value of the Voluntary Sector Infrastructure Fund, which supports VCS development, to ensure organisations can be sustainable across this difficult time.
- 4.22. The impact of COVID-19 has led to a well-documented increase in the need for food support and other community led initiatives at the grass roots level. Those organisations providing this support look to our core Community Engagement and Grants offers for enabling and support. Throughout COVID-19 additional learning and understanding of how community organisations can be supported to deliver vital services has meant an increase in funding applications that are administered by the teams.

### *Regeneration*

- 4.23. Within Regeneration there is some uncertainty on the Planning income that can be expected to be collected in future years. Income is currently lower than in past years, which may in part be due to the industry still recovering from the impact of COVID-19, and the imposed shutdowns on the construction industry. However, the current economic climate is also beginning to have an impact on construction, with there being little appetite for developments of all sizes. There is the potential that this could impact the income received for years to come. This is also likely to impact the income collected by the Building Control team if less developments are taking place.

### **Resident Services**

#### *COVID-19 scarring and demographics*

- 4.24. Environmental Services generate a large proportion of the Council's income through fees and charges. A decrease in the level of income received due to a



slow recovery following the pandemic or decreased demand for services due to the cost of living crisis, could put a pressure on the service's budgets.

- 4.25. For instance, within the Parking service, whilst there is a slight increase in the number of resident permits sold as people work from home, there is a decline in the number of business permits purchased, as well as a reduction in revenue from car parks and on street parking. A reduction in penalty charge notices, and a loss of income as a result, is also likely due to people less likely to take a risk of non-compliance.
- 4.26. The Highways service is reliant on a reduced TfL LIP (Local Implementation Plan) funding, which is due to severe financial pressures on TfL. Typically, Brent would receive an annual allocation of c£2.2m to deliver this programme, with additional funding for Bus priority (c£0.8m). This funding was withdrawn in April 2020 following the outbreak of the COVID-19 pandemic and subsequent impact on TfL's finances. The Heathy Streets and Parking revenue budget is reliant on TfL LIP funding, which has been significantly reduced due to severe financial pressures. TfL has recently reached an agreement with the Government and confirmed the funding will be available for 2022/23 as c£1.3m, which represents a reduction of c£1m. The service has also commissioned S106 developer funding to deliver a programme of schemes, however, with reduced income and charges for staff costs, it is anticipated that this will result in a risk of under recovery of up to £0.2m. The service will seek to manage this through the reduction of agency staff, however, the risk cannot be fully mitigated as staff resources will still be needed to deliver the council funded programme and continue day to day operations. The current volatility in the energy markets mean significant uncertainties in this area. The exact details of the Government's proposed Business Energy Relief Scheme's implications to the Council at the time of the report writing are also uncertain. The Council is currently completing significant energy efficiency works, using a Government grant, across Brent's estate, which is expected to alleviate some of the pressures.
- 4.27. As energy costs are increasing for leisure centres, the risk of provider failure is increasing, forcing the Council to make difficult choices. An option is to support operators by subsidising their operating costs. Closing sites due to rising utility costs would also have a significant impact on both communities and income levels.
- 4.28. The provision of sufficient special needs home to school transport is the Council's statutory obligation and Brent Transport Service continues to experience annual net growth in net passenger numbers leading to an increase in cost of the service delivery. This obligation is recognised in the MTFS and growth is built in based on prior years' trends and demography forecasts.

*Veolia and Other Contract reletting – contract value and ongoing indexation*

- 4.29. The Redefining Local Services (RLS) programme was initiated in May 2019 to develop and implement a commissioning strategy for the outsourced 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.

- 4.30. 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 have already been considered when setting savings targets for 2023/24.
- 4.31. Growth has been built into the MTFS to help alleviate some of the pressures associated with contracts indexation within the Environmental Services, however this continue to present a significant budget risk. There is growth currently built into the MTFS for 2023/24 to recognise a requirement for Environmental Services contract inflations, including non-recurring growth relating to the RLS programme. A growth for Housing and Leisure services Private Finance Initiative contracts is also included in the MTFS for 2023/24. Contracts are often linked to indices such as CPI or RPI and services are contractually obliged to reflect any fluctuations in annual contact payments.

#### *Temporary accommodation*

- 4.32. As the cost of living crisis deepens, with energy costs and day to day expenditure increasing steeply, there has been a rise in homelessness applications, resulting in an increased use of temporary accommodation. The current economic climate could also have an impact on the rent collection rates and result in increases in rent arrears.
- 4.33. In addition, the affordable Private Rented Sector has contracted, which means there is a lack of supply to move households on from temporary accommodation, which will put further pressures on the budget. Although, the recent opening of Anansi and Knowles house has alleviated this pressure to some extent, both schemes are now full and silted up due to the lack of move on accommodation available.

#### *Homelessness Prevention Grant consultation*

- 4.34. The government is reviewing the funding arrangements for the Homelessness Prevention Grant for 2023/24 onwards and launched a technical consultation seeking views on the approach to the funding arrangements and conditions for the grant. Under both of the considered options Brent would see a reduction in funding, £854k under Option 1 and £3.5m under Option 2. With a significant reduction in funding, there is an increased risk of a resulting budget gap requiring additional savings from the Council and changes to the service delivery.

### **Finance and Resources**

- 4.35. There are social and economic factors which are increasingly placing pressures on the viability of the New Council Homes Programme (NCHP). Rising inflation, a continued shortage of labour and materials and events such as the COVID-19

pandemic and the war in Ukraine have had an adverse effect on project costs and increased demands for suitable housing accommodation. The Government reported an increase of 23% on materials such as steel, timber and concrete and this will impact our ability to continue working at pace to deliver affordable homes for Brent residents and other projects related to the refurbishment/maintenance of our retained estate.

- 4.36. The Commercial Property team is experiencing pressures in collecting outstanding debts for rent arrears from tenants that have suffered as a result of the COVID-19 pandemic. This is putting direct pressure on the department's income target and work is being undertaken in coordination with the Council's Legal and Debt Recovery teams to recover outstanding debts in a timely manner.

### **Employee Costs**

- 4.37. The current financial environment is putting considerable upward pressure on pay. The pay award for 2022/23 was agreed on 1 November 2022 with a flat amount for outer London of £2,229 at all pay levels. This broadly equates to an average 6.5% increase in pay, ranging from 10% at the lowest level of pay and 1.2% at the highest level of pay. This is estimated to cost £9m in 2022/23. The Council will seek to manage this pressure in 2022/23, either by implementing mitigating actions or by use of reserves. If the latter approach needs to be taken, it will add to the budget gap for 2023/24.
- 4.38. The pay award for 2023/24 has yet to be agreed and the type of pay award for 2023/24 is also unknown - it could be an overall percentage or a flat amount, like 2022/23; however, the growth assumed for pay inflation has been increased to £6m, which is sufficient for a pay award of up to 4.5%. At the present £6m is deemed prudent as inflation in 2023/24 is not expected to be as high as in 2022/23. This will need to be kept under review. While it is welcome that the pay award for council staff has been agreed at a time when inflation is high and there is a cost of living crisis, the permanent increase in the Council's cost base represents a significant ongoing cost pressure.
- 4.39. The Brent Pension Fund is currently in the process of completing the triannual valuation and analysis of the Council's contribution rate has been completed. The results of this exercise were presented to the Pension Sub-committee in October 2022 and it was agreed that the Council's contribution rate can be reduced by 1.5% per year over the next three years from 2023/24. The reason for this is due to a significant improvement in the funding level of the pension fund, arising from better than expected investment returns.
- 4.40. However, the exact size of the saving is uncertain and will depend on the level of pensionable pay for employees in the pension scheme and the pay award. The pay award for 2022/23 agreed in November 2022 is for a fixed increase which averages 6.5%; the pay award for 2023/24 has yet to be agreed. If the pay award for 2023/24 is around the same level as 2022/23, the additional cost would negate the savings from lower contribution rates. A further reduction in the contribution rate of 1.5% would occur in 2024/25 and again in 2025/26. As the pay award for future years is unknown, it is not possible to estimate if further savings can be achieved from reduced contribution rates. This will be assessed every year as

part of the budget setting process and if savings can be realised they will be incorporated into the MTFS to support the overall budget and reduce the budget gap.

### **Voluntary redundancy**

- 4.41. In order to minimise the need for compulsory redundancies, the Council is operating a voluntary redundancy (VR) scheme in the 2022/23 financial year. Applications under the VR scheme closed on 31 August 2022. Where an application for VR has been accepted, the individual's post will be deleted and the funding for that post will be removed from the service budgets permanently. The savings from these post reductions are expected to form part of the £18m of savings that have been put forward as part of the 2023/24 budget and as a result will reduce the need for compulsory redundancies

### **Fees and Charges**

- 4.42. Setting the level of increase in fees and charges is going to be difficult this year due to high inflation and a volatile economic environment. Brent's residents are also facing a cost of living crisis, unprecedented in recent times. Whilst the Council is committed to supporting the borough's residents through this economic uncertainty, freezing all fees and charges is not an affordable option. The Council is therefore taking a balanced approach that seeks to keep down the level of increase as far as is possible and appropriate.
- 4.43. The outcome of the review of fees and charges and the proposed increases for 2023/24 will be set out for Full Council in February 2023.

### **Council Tax**

- 4.44. Council Tax one of the most significant sources of income for the Council, making up £140.1m (or 47%) of total core funding in 2022/23.
- 4.45. The 2021 Spending Review allowed Local Authorities to increase Council Tax by up to 2% without a local referendum and in addition, local authorities were able to levy a 1% adult social care precept.
- 4.46. The current working assumption is that the referendum limit will remain the same for 2023/24. As mentioned earlier in the report, in the event that the referendum limit for Council Tax is higher than 2.99%, the proposal will be considered in the round alongside other potential cuts to government grant funding.
- 4.47. The Government is also likely to continue its financing assumption 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.
- 4.48. The cost of living crisis, increasing interest rates, COVID-19 scarring and social care reforms add additional burdens to existing pressures within the Adult Social Care and housing services. This significantly impacts people's ability to live

independently, therefore the Council is seeing increased demand, particularly for more complex needs cases, which require a more comprehensive support package. The situation is exacerbated by staffing shortages across the sector and unmet demand in both the working age adults and older people mental health services for highly trained professionals. There has also been growth in the number of people approaching the Council with multiple needs which has in turn increased the number of care assessments required. This is largely connected to difficult housing conditions where self-neglect and hoarding are common problems. There has also been additional growth in Safeguarding Adults. The effects of the cost crisis, including diminishing disposable incomes and increased energy poverty, as well as long-term COVID-19 issues are expected to increase in demand for services.

- 4.49. Taking into account the unprecedented pressures within social care, housing and the financial position in the round, the budget has been prepared on the basis of a 2.99% increase in the Brent element of Council Tax. This will add £4.2m of recurring income to the Council's budget. 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 £32m of support to around 28,000 households who are financially vulnerable. Further announcements from the government on additional funding that it may make available to help households in financial difficulty are awaited.
- 4.50. The GLA precept, which makes up about 22% of the overall Council Tax bill, is unknown at this stage and is subject to their own decision making and consultation processes.
- 4.51. 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.
- 4.52. The total cost of providing CTS has increased from £28.4m at the start of the pandemic to £31.8m as at September 2022, an increase of £3.4m, or 12% which is broadly in line with the overall increase in Council Tax. This is significant as an increase in CTS expenditure reduces the amount of Council Tax that is able to be collected.
- 4.53. 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 in-year collection rate in 2021/22 was 92.3%, although total collection is expected to increase in future years as debt recovery will continue to be attempted. Based on current modelling, the in-year collection rate for 2022/23 is expected at 92.5% which would result in a £5m reduction of income compared to the previous in year target of 96%. Clearly this is significant, however it is expected that through ongoing debt recovery in future years, this will reach the long-term collection rate target of 98%.

- 4.54. As a result of the postponement of normal debt recovery action for nearly two years during the pandemic collection assumptions were reduced in 2021/22 and 2022/23. It is too early to be able to estimate the long term impact on collection. At present the long term collection rate in the MTFS has reverted to 97.5%. This will be kept under review as there may be an impact on collection from the cost of living crisis, lower than inflation pay rises, higher interest rates and potential squeeze on benefits. It should be noted that the Council maintains provisions for writing off debt that will not ultimately be collected.
- 4.55. 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, which will be considered by the General Purposes Committee on 12 December 2022. Brent, like all Local Authorities, has to set a balanced budget by working out how much next year's band D Council Tax should be on the basis that the total tax to be collected equals the budget required to pay for its services. 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.
- 4.56. Data compiled by the Council from a number of sources, including the planning department and directly from developers, shows the number of consented schemes that are likely to complete towards the end of 2022/23. The 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 2023/24.

### **Business Rates**

- 4.57. The Council remained committed to supporting local businesses throughout the pandemic. Funded by government, the Council 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 £114.1m in 2022/23. In addition, the Council has administered direct grants, funded by central government, to local businesses totalling £105.9m across over 13,500 local businesses. The Council continues to engage with the business community to ensure that eligible businesses have access to this support.
- 4.58. 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 more businesses will be unable to pay their business rates: some may be unable to trade effectively and others 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.
- 4.59. The in-year collection rate in 2021/22 was 91.3% which is significantly lower than the amount collected pre-pandemic, at 98.2%.

- 4.60. The amount that was planned to be collected in 2022/23 was £115.6m and, as a result of mandatory reliefs funded by government, the amount that is able to be collected is now £114.1m. The in-year collection rate for 2022/23 is forecast to be around 84% of amounts due, increasing the levels of debt outstanding that will be pursued over time.
- 4.61. Business Rates and Council Tax income assumptions in the budgets for 2021/22 and 2022/23 were fairly cautious and reduced the overall income built into the MTFS. At this stage of the budget process, and due to the continued uncertainty in collection, it is deemed reasonable to continue with cautious budget assumptions.

### **Business rates - Eight authority pool**

- 4.62. 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 set up by all London Boroughs in 2020/21 which offered lower financial benefits than the previous scheme, while retaining all the strategic benefits. However, the onset of the pandemic during 2020/21 had a significant impact on the collection of business rates and the pool was not continued in 2021/22.
- 4.63. In 2022/23 the Council entered into a new pool with seven other London authorities on the same basis as the previous London-wide pool. There are potential benefits of £30m, which will be shared between the authorities. Brent's share was estimated at the time to be in the region of £2m based on initial forecasts from the eight authorities. The final position will not be known until a reconciliation process during 2023/24, when settlement will be made. Recent monitoring suggests the pool is on track to make expected gains. Any pooling gain that is confirmed, once the audit is complete, will be allocated to one-off projects in a future budget.
- 4.64. For 2023/24 a proposal has been made for the eight authority pool to continue. If accepted, further potential benefits could be generated for Brent, but at this stage it is too early to build an estimate into the base budget due to the uncertainties around the continuation of the pool and lack of clarity on central government's plans for business rates in general.
- 4.65. As part of the February 2022 Budget Report, decisions on entering into and remaining a member of a Business Rates pool were delegated to the Corporate Director of Finance and Resources. A decision on this is not therefore required. If there is a risk to the pool making a loss, which is currently deemed unlikely, Brent will have the ability to withdraw from the pool at any point up to 28 days after the government's provisional Local Government Finance Settlement.

### **Government Funding**

- 4.66. As described earlier in the report, the precise details of any additional funding for Local Government will not be known until the Provisional Local Government

Finance Settlement, usually announced in mid-December. The Chancellor's comments on 17 October indicate that there may be real terms cuts. The expectation is that the government will use the inflation forecasts contained in the 2021 Spending Review as the indexation factor for public sector expenditure rather than the September CPI figure. For government departments as a whole, the inflation factor averaged 3.35; for local government the amount was 3%. The September CPI figure is 10.1%. It is worth noting that the 3% local government figure includes 1.2% for changes and reforms to social care, leaving just 1.8% as the general inflation uplift. It is unclear if this split will continue.

- 4.67. In line with the 2021 Spending Review, it is anticipated that the Revenue Support Grant, Public Health Grant, the Improved Better Care Fund and the Social Care Grant will continue to be uplifted by an inflationary indexation factor, albeit at a lower rate than the September CPI figure. 2021 Spending Review gave no commitment to maintain the level of the 2022/23 Services Grant for individual local authorities. It is believed that the government will use this to target funds to areas as part of the Levelling Up agenda with a reduction of funding to London boroughs. In anticipation of this, the MTFS assumes that this grant will fall to 80% of its current value - a reduction of £1m to £5m for 2023/24.
- 4.68. The overall approach assumed in the MTFS to the indexation of government funding has been cautious. The working assumption at the last update in July was for a 3% increase and this was not updated when inflation rose substantially above this level, as there was no indication whether the government would entertain increases as very high levels. Since it has become clear that the government intends to cap indexation at around 3%, this approach means that the Council will not be required to find extra savings to cover any potential loss in indexation, as this was already assumed.
- 4.69. Taking into account the indexation assumptions and the expected changes in grant levels, these grants represent over £60m of funding. The core funding forecast for the 2023/24 budget remains as previously assumed.

### **Reserves Strategy**

- 4.70. The Council takes a risk based approach to the management of useable reserves and as part of setting the annual budget, the s151 Officer undertakes a review of risks and known commitments to calculate a minimum level for the General Fund reserve. For 2022/23, it was determined that a level of £15.1m remained an appropriate figure – this represents 5% of net expenditure. With the exception of this reserve, which is set at the minimum prudent level expected by external auditors, all other reserves are earmarked for specific purposes and known future costs and therefore they are not readily available to fund any budget gap.
- 4.71. The Council does have some flexibility with some reserves to support the MTFS, as some reserves are not needed for a number of years. The Council could potentially draw down upon some reserves, subject to those reserves being replenished in time to fund future known costs to prevent budget pressures in future years.



- 4.72. All earmarked reserves are also being reviewed to assess the extent to which they could be repurposed; however, the vast majority of earmarked reserves are already set aside to help fund expenditure to which the Council is already committed. The use of some reserves is also ring-fenced by statute to specific purposes (Community Infrastructure Levy and Public Health are examples of this).
- 4.73. Best practice is to use reserves only to fund one-off items as the reserves themselves are by nature single sums that can only be used once. According to CIPFA's *Financial Management Code*, running down reserves by persistent use to support the revenue budget would be a symptom of financial stress, indicating a financial position that is not sustainable in the long run.
- 4.74. Any draw down from reserves in the proposed budget and future forecasts in the MTFS needs to be stress tested to determine its effect on the level of usable reserves. For instance, if a drawdown of £5m per annum (circa 5% of the net budget) were incorporated into the Council's budget plans, the General Fund balance of £15.1m would be exhausted after three years. Having no reserves is not prudent and would expose the Council to considerable financial risk and would be likely to lead to an adverse external audit opinion on financial sustainability and resilience.
- 4.75. Given the current volatility in the economy, the Council intends to create an Inflation Risks Reserve by the reallocation of funds from existing reserves as a buffer against major risks from rising prices and other cost pressures.
- 4.76. The current budget proposals are made without an assumption that reserves will be drawn down to support the budget. Should the financial position be worse than expected, for instance due to an adverse local government finance settlement, the Council will use reserves to bring the 2023/24 budget into balance. It is permissible to use reserves in the short-term to bridge gaps and cover timing differences, but only if there are clear, achievable savings in the medium term. This will be a one-off measure and the gap will need to be addressed in future years as persistent use of reserves will cause them to fall below the prudent level required to guard against risks and uncertainties, and could ultimately lead to the complete depletion of uncommitted reserves.

### **Overall summary of the budget position**

- 4.77. The MTFS captures the factors that give rise to pressures on the revenue budget. As far as can be assessed in these uncertain times, the MFTS is a robust model of the financial outlook for Brent and is resilient within a range of tolerances.

## **5. Savings Proposals**

- 5.1. When the 2022/23 budget was set in February 2022, this was the second year of a two year savings package. No savings were agreed for years beyond 2022/23. Since then the economic situation has deteriorated considerably and remains highly volatile. Whilst the financial impact of COVID-19 has reduced and is now much easier to quantify, new economic pressures have emerged, such as high levels of inflation, as set out early in this report. Given the high degree of

uncertainty over financial forecasts, it is hard to predict the potential budget gap beyond 2023/24. It is therefore prudent to only agree a one-year savings package at this point. The budget gap for 2023/24 is currently estimated at £18m to achieve a balanced budget. This is set out in the following table.

Table 2: Overall Financial Position

<b>Proposed Budget</b>	<b>2023/24 £m</b>
<b>Expenditure</b>	
Base Budget from 2022/23	323.1
Demographics	6.5
Inflation	14.7
Pay	6.5
Other	0.7
<b>Total Expenditure</b>	<b>351.5</b>
<b>Income</b>	
Revenue Support Grant	(26.6)
Specific Grants	(61.3)
<b>Total funding from Central Government</b>	<b>(87.9)</b>
Council Tax	(147.8)
Business Rates	(97.8)
<b>Total funding from residents and businesses</b>	<b>(245.6)</b>
<b>Total Income</b>	<b>(333.5)</b>
<b>Budget Gap (Expenditure less Income)</b>	<b>18.0</b>
Savings Proposals (for agreement in February 2023)	(18.0)
<b>Budget Gap</b>	<b>0.0</b>

- 5.2. The budget gap arises for two reasons. The anticipated government cap on the increase in Core Spending Power means that government grants, retained business rates and Council Tax rise at less than the actual value of inflation. Unless measures were in place to similarly restrict the rise in costs due to inflation, it would not be prudent to put in place a similar restriction on expenditure indexation. The inflation amounts included in the budget are robust as they are based on OBR and Bank of England forecasts. The gap arising from the differing treatment of inflation is £10.8m. The cost of providing services at existing levels also increases due to changes in the population. These demographic changes add a future £7.2m pressure to the budget, resulting in the savings target of £18m.

5.3. As part of the budget setting process for 2023/24, a number of new budget proposals have been developed in order to close the £18m budget gap noted in the table above. Throughout the process, in producing the draft budget proposals, the emphasis continues to be on delivering efficiency measures, service transformations, cost reductions and income generation with a view to protecting front line services and Council priorities as much as possible.

5.4. The table below summarises the proposals put forward to close the budget gap.

Table 3: New budget proposals

<b>Proposal</b>	<b>Saving (£m)</b>	<b>Description</b>
Reduction in provision	0.6	These relate to marginal reductions in service levels in a number of areas.
Service Transformation	9.3	Transformation service offer and increased level of automation.
Digital	0.9	Use digital technologies to transform processes and service delivery
Procurement	1.6	Ongoing review procurement and contract management, covering new procurement activity, re-scoping of contracts and reviewing inflationary uplifts.
Restructure	4.8	Reorganisation of staff
Income generation	0.8	Income from leasing floors of the Civic Centre to external organisations and increase in third party income
<b>Total</b>	<b>18.0</b>	

5.5. The table below summarises the proposals by service area.

Table 4: New savings proposals

<b>Service Area</b>	<b>Sum of savings proposed (£m)</b>	<b>No of Proposals</b>
Adult Social Care & Health	4.3	7
Children and Young People	2.4	8
Communities and Regeneration	0.6	8
Resident Services	4.2	18

Finance and Resources	1.8	8
Governance	0.5	11
Corporate	4.1	5
<b>Total</b>	<b>18.0</b>	<b>65</b>

- 5.6. The Officers have reviewed the proposals to ensure the plans are realistic and deliverable. Detailed budget templates have been produced, attached as Appendix B, that set out further details of each proposal while providing the overall current budget context, the key risks and mitigations and the equalities impact where relevant.
- 5.7. 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 2022. If the LGFS is better than expected, then it may be possible to defer some of the savings proposals; conversely, if the LGFS is worse than expected, there will be no requirement to identify further savings for the 2023/24 budget. Instead, if the situation does deteriorate, it may be necessary to use reserves to bridge any budget gap in the short term with the longer term issues tackled in a future budget. Any revisions will be reflected in the budget to be considered by Cabinet in February 2023.
- 5.8. While the approach to budget setting for 2023/24 is deemed reasonable under the current circumstances, the situation remains that there is still a considerable budget gap for 2024/25 expected – this is currently estimated at £10m, but is likely to be higher. The Council will therefore have some difficult decisions to take over the coming year as part of the next budget planning round.

## **6. Risk Management**

- 6.1. The Council has adopted a risk-based approach to its financial planning. The earlier the Council becomes aware of a potential risk to the achievement of its Financial Strategy, Medium Term Financial Strategy or its annual budget, the sooner – and the more effectively – it can take action to address that risk and to mitigate its impact.
- 6.2. Through the financial planning and budget setting process risks have been identified and actions to control or mitigate those risks have been identified. The MTFS contains a risk register covering risks inherent in the MTFS assumptions and other factors both within the Council and externally that could have an impact on the Council's financial position. In the section covering services pressures, risks were extensively explored and in the detailed savings proposals risks are also considered.

## **7. Financial Resilience Assessment**

- 7.1. In the *Financial Management Code*, CIPFA recommends that local authorities undertake a Financial Resilience Assessment (FRA) to determine the long-term financial sustainability of the authority. The Financial Resilience Assessment

looks at symptoms of financial stress (such as running down reserves as mentioned earlier) and effective financial management (for instance, having clear plans for delivering savings).

- 7.2. This report sets out the factors that an FRA would consider, such as the use of reserves, stress testing budget proposals and sensitivity analysis. A full FRA will be undertaken when the February Budget report is approved, as the Chief Finance Officer's assessment of the adequacy of reserves and robustness of estimates under section 25 of the Local Government Act 2003 should be taken into account.

## **8. Statutory process of consultation, scrutiny and equalities**

### *Consultation*

- 8.1. 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.
- 8.2. 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 new budget proposals for 2023/24. In addition, it is proposed that a presentation on the draft budget be delivered to each of the five Brent Connects meetings in November 2022 and January 2023.
- 8.3. 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, the Chamber of Commerce, and a number of town centre business associations. 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 they could have their say.
- 8.4. 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. There will be additional opportunities for residents to respond to the consultation through drop in events in all Hubs in the borough. Focus group discussions will also be held with specific groups including older people, youth groups and newly arrived communities.
- 8.5. 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, businesses 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. This will be delivered through a variety of

communication channels, for example through the local newspaper, publicity on the council's website, e-Newsletters, posters, media briefings and use of the Council's social media platforms, including Facebook and Twitter, to disseminate reminders and encourage residents to participate in the consultation process.

### *Scrutiny*

- 8.6. 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 new proposals set out in appendices A and B. 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*

- 8.7. 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. Each of the budget proposals attached in Appendix B have been subject to an equality impact assessments (EIA) screening to assess their potential or likely impact on service users and employees with protected characteristics. Where the EIA process identifies a disproportionate negative impact with no reasonable mitigation, the proposal will be subject to a full EIA and may need to be changed or even rejected. The consultation process outlined in this report will be an important source of information for these exercises. If a proposal involves a staffing restructure, an EIA will be conducted as part of that process, which forms part of the Managing Change policy.

## **9. Schools and Dedicated Schools Grant (DSG)**

- 9.1. The provisional DSG allocations announced in July 2022 show that Brent will receive an increase in mainstream pupil funding of £2.9 million, which represents an overall increase of 1.2%. This is lower than the national percentage increase of 1.9% and lower than the average of 1.6% for local authorities in London, primarily driven by only London experiencing a decline in pupil numbers according to the dataset underpinning the notional National Funding Formula (NFF). As in previous years, the Council will continue to set a local funding formula for mainstream schools in 2023/24, although the total funding available will be determined by the NFF.
- 9.2. In March 2022, the government confirmed its commitment to introduce the direct NFF. Local authorities will be required, from 2023/24, to move their local funding formula factors by 10% towards the NFF factors and must use all and only the NFF funding formula factors to calculate schools' budget allocations. The implications to Brent schools were presented to Schools Forum in June 2022 and details can be accessed via the following link: [DSG Final Outturn 2021/22](#).

- 9.3. The government recently completed a consultation on the detail of the implementation of the direct NFF. The consultation included proposals for how funding for schools experiencing significant growth in pupil numbers or falling rolls could operate under the direct NFF and more importantly, the determination of SEN notional budgets for mainstream schools' and disability support within the direct NFF allocations. Results of the consultation will be published later in the calendar year.
- 9.4. The number of Brent schools experiencing difficulties has increased with 67% projecting an in year deficit. 23% of these schools plan to use over 50% of reserves to balance their budgets. Schools are feeling the impact of rising inflationary costs and increases in energy prices alongside the prospect of teachers pay increasing by 5% in 2022/23 and starting salaries rising by 8.9% to £30k. The DfE expects schools to manage these pressures within the allocated funding increase in 2022/23 of 3.6% and 1.2% expected in 2023/24. A number of Brent schools are also experiencing falling rolls and as a result have had significant reductions in funding. This is requiring schools to make strategic decisions to mitigate the impact of this, including the consideration of staffing restructures. Alongside measures to support schools, such as capping admission numbers, a School Place Planning Working Group will be established to review the sustainability of provision in primary planning areas.
- 9.5. The High Needs block (HNB) of the DSG will see a 5% (£3.5 million) increase in 2023/24. This is on par with other Outer London boroughs but lower than the national average increase of 6.3%, due to London experiencing the lowest increase across various funding factors as a result of reductions in pupil numbers.
- 9.6. Pressures against the HNB remain, 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 2023/24 the local authority will request, via the Schools Forum, a 0.5% transfer from the Schools Block. The pressure in the HNB has led to there being a £15.1 million deficit in the DSG carried forward from 2021/22 and further forecast pressures of £2.2 million in 2022/23 will increase the deficit position to £17.3 million. The statutory override that was put in place to enable local authorities to hold deficit balances is due to end this financial year. Further guidance is anticipated from the DfE regarding the management of historic deficits going forward as this poses a risk to the general fund reserves.
- 9.7. The DfE requires 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 including developing new Additionally Resourced Provisions (ARPs) as part of the School Place Planning Strategy 2019-23 Refresh paper agreed at Cabinet in November 2021. In addition, 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 and continued central government lobbying.

- 9.8. Brent is part of the newly introduced DfE programme called Delivering Better Value (DBV) in SEND to provide dedicated support and funding to help local authorities reform their high needs systems. The DBV programme has made a provision of £85m over 3 years from 2022/23 to support a wider group of LAs with smaller DSG deficits. Brent is in the first tranche of 20 local authorities the DfE is working with. The expected outcomes include; a comprehensive diagnostic to identify root cause cost drivers and mitigating solutions or reforms and support in developing a quality assured Management Plan.
- 9.9. A consultation on the Early Years funding formula and maintained nursery school supplementary funding concluded in September 2022. The main aspects of the proposals related to the need to update the funding formula for early education entitlements for children aged 2, 3 and 4. Analysis shows that a number of the proposed changes to the Early Years funding from 2023/24, if approved, could have significant financial impacts on elements of the early years' settings and will jeopardize the sustainability of some local childcare providers. The results of the consultation are expected to be published this autumn.
- 9.10. 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% retained for central services. Funding allocations for the Early Years Block are expected to be announced in December 2022. In the Spending Review 2021, the DfE confirmed that nationally, the block will receive additional funding worth £180 million in 2023/24 and £170 million in 2024/25, to enable local authorities to increase hourly rates paid to providers for childcare entitlement offers and reflects the costs of inflation and national living wage increases. An Early Years funding report for 2023/24 will be presented at the Schools Forum in January 2023, detailing the revised funding rates.
- 9.11. The recent SEND Green paper is likely to bring about reforms to the funding system, a major part being the introduction of a new national framework of banding and price tariffs for high needs funding. Bandings would cluster specific types of education provision aligned to need. Brent like most local authorities uses a banding system to allocate funding ranging from Band 1 for lower levels of need to Band 6 for the most complex needs. The introduction of tariffs would help to control high costs attributed to expensive provision. National funding bands have the potential to establish a more consistent basis for the funding of provision and all specialist providers will need to ensure the provision they offer is in line with the national SEND standards. The DfE proposes to work with local authorities and provide clarity on the process.

## **10. Housing Revenue Account**

- 10.1. 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.
- 10.2. 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

- 10.3. Since 2020/21, and originally for the following four years, the Council had the power to increase rents annually up to a maximum of CPI plus 1%. However due to the rapid rise of inflation within the context of the cost of living crisis, the government is currently consulting on introducing a rent increase cap. The consultation includes proposals for capping rent increases at 3%, 5% and 7%, all of which are below CPI + 1%. A central case scenario of a 5% rents cap is being used for budget planning purposes.
- 10.4. In 2022/23, the average rent currently sits at £124.70 per week, after applying an uplift of CPI + 1% (a 4.1% increase overall) on the previous year. A 5% cap would result in an average rent per week of £130.94, raising an additional £2.5m per annum. This is a £3m (or a 55%) reduction in investment in the HRA when compared to continuing with the CPI + 1% policy. With a 3% rent rise cap, the level of income per annum would reduce further by £1m when compared to the 5% cap. A 7% rent cap, would be a £1m increase when compared to the 5% option.
- 10.5. In the context of the 30-year business plan, a CPI + 1% model helps to provide some stability and certainty over planned investment in the stock, service improvement and new development, at least in the medium term. It does however not entirely mitigate other risks which are present in the current economic climate. Factors such as the unprecedented increases in energy and material costs, repair and maintenance contracts and anticipated wage increases, mean any decision to set rents at less than the maximum permitted, provides a significant risk to the sustainability of the HRA. Local authorities still need to cover the inflationary pressures within the HRA whilst delivering on their operational requirements and strategic priorities some of which are additional legislative requirements, from repairs and maintenance, to building safety, fire safety and decarbonisation. A rent cap or lower than a CPI + 1% increase combined with increasing costs would result in even greater pressure on the HRA and a likely situation of spend exceeding income generated through rent and service charge collection.
- 10.6. It is illegal to set a budget that would result in negative balances on the HRA. If faced with this likely situation, significant savings will be required from the management and maintenance budgets.
- 10.7. Rent increases in 2023/24 do not only affect the financial year in question, but also have an impact on future rent levels. There is no provision in the current rent regulations to allow anything more than the maximum (CPI+1%) increases in future years. Therefore a lower rent increase in 2023/24 means that the base for a rent increase in 2024/25 is also going to be lower and so on for future years. For example, if CPI is 10% and 6% for the next 2 years and rents are capped at

5%, the HRA will have a budget deficit of £4m, compared to an operating balance of £2.9m if CPI+1% was implemented.

- 10.8. Implications of future Government regulated rent policy remain uncertain beyond April 2025. Some costs such as repairs are likely to rise significantly and remain at those levels without falling when the current economic pressures subside. Therefore, it may be necessary to reduce planned major works, along with plans for decarbonisation and new builds in order to maintain long-term financial sustainability and resilience
- 10.9. The table below shows the best and worst case scenarios' impact on the HRA budget with a 5% rent rise limitation in place.

Table 5 - HRA Budget Scenarios

	<b>Best Case £m</b>	<b>Worst Case £m</b>
Rent (5% rise)	(2.5)	(2.5)
Bad Debt Provision	0.5	1.0
Repairs and Major works inflation	2.1	2.7
Pay Award	0.4	0.7
Increased void costs	1.5	2.0
Increased costs of disrepairs	0.3	0.5
<b>Budget Gap</b>	<b>2.3</b>	<b>4.4</b>
<b>Saving Proposals</b>		
Reviewing void standards and active interventions to reduce costs	(1.15)	(1.15)
A reduction in staffing costs	(0.85)	(0.85)
A reduction in support services	(0.3)	(0.3)
A reduction in costs associated with contracts and external provider spend (e.g. exclusions, TMO)	(0.7)	(0.7)
<b>Total Savings</b>	<b>(3.0)</b>	<b>(3.0)</b>
<b>Total Impact</b>	<b>(0.7)</b>	<b>1.4</b>

- 10.10. A 5% rent limitation would result in a budget gap of between £2.3m and £4.4m. With a 3% cap, this gap widens to between £3.3m and £5.4m and with a 7% cap, it is reduces to between £1.3m and £3.4m.
- 10.11. Based on the scenarios modelled in the table, the central case (that is broadly in-between the best and worst case scenario) suggests that a 5% rent cap and identified savings could result in a balanced budget.

### *Bad Debts*

- 10.12. It is recognised that cost of living crisis and increased rental charges can have an adverse impact on the level of rent collections. In 2021/22, 40% of rent charges were covered through housing benefit payments, which equates to £20m. The remaining 60% of income totalling £30m was paid directly by tenants who are in employment or in receipt of universal credit and would be at risk of increases levels of non-collection.
- 10.13. Collection rates in Quarter 1 2022/23, on average, stood at 95%. If this level of rent collection remained consistent for the year, this would result in an additional budget requirement of £2.4m in order to allow for potential non-payments. The Council's Resident Support Fund helps to alleviate some of financial hardship being faced by tenants. However, collection rates are still expected to continue to be impacted. For every 1% drop in collection, the loss of income is estimated at £0.5m. It is estimated that in 2023/24 the budget will need to increase by anywhere between £0.5m and £1m in order to account for a potential increase in non-collection.

#### *Repairs and major works*

- 10.14. The figures from the Royal Institute of Chartered Surveyors, published in May 2022, suggest that high material prices are now impeding activity for 84% of construction firms. The construction industry expects further price rises, with an average estimate of 12%-13% inflation over the next 12 months, increasing the likelihood of risk that the contractor may not be able to complete or take on more work. It is estimated that inflationary uplifts on Brent's repairs contracts could potentially range between 8%-10% resulting in an additional budget requirement between £2.1m to £2.7m in 2023/24.

#### *Pay Award*

- 10.15. Staffing budget for 2022/23 is £10.9m, made up of 227.5 FTE's, an average of £50k per FTE. The pay award for 2022/23 has been agreed at a fixed amount of £2,229 in outer London, which is estimated to result in a budget uplift requirement of £0.5m, an average uplift of 5% on existing budgets. An inflationary uplift ranging between 4%-6% will result in a budgetary requirement between £0.4m to £0.7m in 2023/24.

#### *Existing Budget Pressures*

- 10.16. Over the last two years, the HRA experienced budgetary pressures associated with expenditure on void properties required to bring them to letting standards. These pressures were mitigated through underspends on staffing costs due to vacancies and reduced spend on major works. With the need to recruit to vacant positions and requirements within the major works programme to maintain a minimum baseline budget of £15m per annum, the budgetary pressures identified for void works require additional funding estimated at £1.5m - £2m per annum.
- 10.17. Compensation claims for disrepairs have also increased over the last few years. The rate of new claims from third party solicitors are not showing any sign of decline as an increasing number of legal claim firms are contacting tenants

directly to promote their services. Additional budget requirement is estimated to be between £0.3 and £0.5m per annum.

### *Saving Proposals*

- 10.18. Difficult decisions are required to be made in order to reappraise HRA budget priorities, achieve a significant level of savings across the HRA and maintain a balanced budget. Annual saving targets are already incorporated into medium-term financial plans, however new savings are required in order to contain the reduction in rental income.
- 10.19. In order to address a budget gap associated with expenditure on void properties closer monitoring of void specifications to ensure overspend is reduced is now in place. This will also reduce the number of major voids which have both higher specifications and longer turnaround times. Quicker turnaround times will reduce the void rent loss and Council Tax liability periods. This is expected to generate a £1.15m saving.
- 10.20. An estimated saving of £850k can be achieved by a reduction in staff. The vast majority can be achieved through the loss of posts that have been difficult to recruit to in Property Services and are currently vacant. The remainder would be achieved through rationalising posts where there are multiple full time employees.
- 10.21. A £0.3m saving is anticipated as a result of general efficiencies and a reduced expenditure associated with support services.
- 10.22. The HRA is carrying out an exercise to assess exclusions within the responsive repairs contract which are not included in the price per property schedule and are therefore higher cost to the HRA. This helps to ensure value for money and reduce duplication for works. The Tenant Management Organisations are now being reviewed to bring their management fees in line with the current HRA position which will result in a small saving plus recouping costs incurred by the Council such as repairs which fall under the TMO's responsibility to cover. This is expected to generate a £0.7m saving.

### *Tenants Service Charges*

- 10.23. Service charges are recharges to tenants, which are based on the actual costs incurred for providing specific services, such as estate cleaning. For the purpose of the budget setting, individual service charge elements are adjusted to bring them in line with the estimated costs of providing these services to tenants. Service charges are adjusted if there is a projected over or under recovery of costs. Currently there is under recovery of costs for estate cleaning services. Therefore a phased approach to cost recovery has been modelled to allow charges to increase over a four-year period, limiting the impact on tenants.
- 10.24. Unmetered communal lighting, heating and hot water charges are adjusted annually in line with the forecast energy supplier inflations. Unity Place in South Kilburn hosts the energy centre for the local district heat network for metered billing. It currently supplies heat and hot water to 235 properties and tenants are billed based on actual usage.

10.25. The rent cap consultation closed on 12 October and a final decision is expected to be announced later this year. Once the rent policy changes are confirmed, the HRA draft budget and the 2023/24 HRA Business Plan will be updated to reflect the impact. Budget assumptions will continue to be reviewed and updated. The HRA budget for 2023/24 will be presented to Cabinet in February 2023 for approval by Full Council.

## **11. Capital Programme**

11.1. The Capital Programme is spend on providing or improving assets, which include land, buildings and equipment, which will be of use or benefit in providing services for more than one financial year. The programme is funded through a combination of capital grants and contributions, capital receipts, reserves, contribution from revenue or prudential borrowing. Any borrowing must be both prudent and affordable therefore the Council must ensure the ability to repay both the interest and principal of any borrowing through the revenue capital financing budget.

11.2. Interest rates have been increasing steadily from historic lows. The Bank of England base rate was 0.25% at the start of 2022. Since then, there have been six rate increases taking the current Bank of England base rate to 2.25%. In recent months, there has been further volatility as markets question the sustainability of government borrowing in light of recent policy announcements around energy price caps and tax cuts.

11.3. The market is expecting significant interest rate increases to be required by the Bank of England in order to bring inflation under control, causing the cost of borrowing to increase significantly. For instance, if the Council were to take a new 30-year today, this would currently be at an interest rate of c6% as compared with below 3% in April.

11.4. This substantial increase in the cost of borrowing coupled with the rising construction costs from high inflation are making the viability of capital projects extremely challenging. For schemes within the Council's existing programme, work is ongoing to identify mitigations to allow delivery to continue; however, this may result in a scope reduction or pausing delivery for a further evaluation at a later date. For schemes within the pipeline and yet to form part of the main programme, updated financial assessments are being undertaken to reflect the increased borrowing costs and scheme costs and the impact on project viability.

11.5. The Capital Programme below comprises of projects approved by Cabinet at the February 2022 budget setting, new projects approved and a number of in year budget adjustments. The full details of the budget changes including options to pause schemes as well as new proposals will be reported in the budget setting report in February 2023.

Table 6 – Current Capital Programme Budget and Financing

<b>Programme Budget</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Corporate Landlord	17.1	57.2	25.6	1.1	0.5
South Kilburn	26.4	10.4	9.9	2.8	11.5
Regeneration	9.4	81.1	63.7	28.8	-
St Raphael's	1.9	1.7	-	-	-
Public Realm	17.9	14.2	5.5	6.1	0.0
Schools	12.4	31.5	17.7	-	-
Housing GF	100.1	83.4	62.1	6.3	1.7
Housing HRA	58.0	85.4	41.6	20.3	20.2
	<b>243.2</b>	<b>364.9</b>	<b>226.2</b>	<b>65.2</b>	<b>33.9</b>

<b>Programme Financing</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Grants & Other Contributions	53.6	77.2	27.6	2.1	0.0
S106 & CIL	11.0	14.8	-	-	-
Capital Receipts	6.3	9.2	9.9	2.8	11.5
Reserves	5.9	0.1	0.1	-	-
Major Repairs Allowance	11.0	11.5	12.0	0.0	-
Revenue Contribution	6.0	4.0	-	-	-
Prudential Borrowing	149.4	248.1	176.6	60.3	22.4
<b>Total</b>	<b>243.2</b>	<b>364.9</b>	<b>226.2</b>	<b>65.2</b>	<b>33.9</b>

- 11.6. Many of the demand pressures for the capital programme are further exacerbated by the cost of living crisis.

*Temporary Accommodation and Social Housing*

- 11.7. Temporary Accommodation (TA) is housing provided to homeless people within the borough whilst awaiting a permanent arrangement to house them. The demand for this type of accommodation is rising given the increased number of homelessness applications received given the current cost of living crisis. This demand drives the need for further social housing where the demand far exceeds the current supply. The housing schemes are experiencing significant viability challenges with the cost of construction rising and the increased borrowing costs. This has required an alternative approach to support the delivery of affordable housing:
- 11.8. A programme wide approach to support cross-subsidy between schemes in the New Council Homes Programme to ensure larger family homes can continue to be built.

- 11.9. Converting schemes to include alternative tenures including Shared Ownership (SO), Open Market Rent (OMR) and Open Market Sale (OMS) with a view to make schemes viable and prioritise larger homes.
- 11.10. Scenario analysis on build costs for schemes during their feasibility to develop plans required to maintain viability throughout the design and tender process in a high inflationary environment. If this is not achievable, an assessment will be made on whether the scheme should proceed.
- 11.11. Even with these considerations, it is highly likely for schemes to still not reach our viability levels so a decision will be taken on whether to reduce the scope of the scheme, pause until a future date and allow for a further assessment or cancel the project.

#### *Supported Living*

- 11.12. Supported Living is a specialised form of social housing that allows adults with care and support needs to maintain independence within the community as an alternative to living in residential care or a nursing home. Its demand is influenced by people's health, ageing, etc. The demand is rising given our ageing population.

#### *School Places*

- 11.13. It is important that the Council is cognisant of the latest demand for school places as it has a statutory duty to provide school places to residents of the borough. The Council had approved a secondary school expansion programme in 2020 but updated demographic figures in 2021 meant there was no longer the projected figures to justify the scheme.
- 11.14. The Programme was paused and funds were used for a new SEND expansion scheme, to meet the need for more places for Special Education Needs within borough. There are currently large revenue costs associated with funding places outside the borough.

#### *Highways*

- 11.15. The highways programme is reliant on Local Implementation Plan funding from TFL to support the improvement works programme however the reduction and uncertainty of this funding has applied additional pressure to the Council to fund any shortfalls in recent years. This makes it increasingly challenging to plan an affordable asset management programme of the footways and carriageways in the borough.

## **12. Financial Implications**

- 12.1. 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.

## **13. Legal Implications**

- 13.1. 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.
- 13.2. 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 Taxpayers, service users and others under Section 3 (2) Local Government Act 1999.
- 13.3. 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.

#### **14. Equality Implications**

- 14.1. 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 those who have a protected characteristic and those who do not, 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.
- 14.2. 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.

## **15. Consultation with Ward Members and Stakeholders**

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

## **16. Human Resources**

- 16.1. 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 2022

**Report sign off:**

***Minesh Patel***

Corporate Director of  
Finance and Resources.

