



Executive
14 October 2013

**Report from the Deputy Director of
Finance**

Wards affected:
ALL

Budget Strategy Update

1.0 Introduction

1.1 This report sets out the Council's funding forecast for the next three years.

2.0 Recommendations

2.1 To note the latest forecast for the Council's revenue budget for 2014/15 to 2016/17 at Appendix 1 and the assumptions used to derive this.

3.0 Baseline Position 2014/15 to 2016/17

3.1 The Budget Report to Council on 25 February 2013 included a financial forecast as part of the Medium Term Financial Strategy, which included the following main assumptions:

3.2 Spending assumptions

- Service area budgets have been rolled forward at 2013/14 levels into future years;
- An allowance for pay inflation of 1% in 2014/15 and 2% thereafter;
- No general inflation for prices in 2014/15 and future years other than that which is contractually committed ;
- Provision for cost pressures in service area budgets of £5.6m in 2014/15, £2.1m in 2015/16 and £3.7m in 2016/17. Key assumptions for central items included:

- *Debt charges (capital financing charges net of interest receipts):* These were forecast to grow from £25.1m in 2013/14 to £27.3m in 2014/15, £28.1m in 2015/16 and £27.9m in 2016/17;
- *Levies:* These were forecast to grow from £3.5m in 2013/14 to £3.6m in 2014/15, £3.8m in 2015/16 and £3.9m in 2016/17;
- *Freedom Pass/concessionary fares.* These have risen significantly over the last few years and the budget for 2013/14 is £15.3m. There are no confirmed figures for future years but the current assumption is that prices will rise by 4% and there will be a 1.5% increase in usage. In addition because of the volatility of this budget in the past an additional contingency of £500k is being allowed for in 2014/15 to reflect any additional increases in transport costs. Therefore, Brent has budgeted for an additional £1.2m (2014/15), £0.8m (2015/16) and £0.8m (2016/17).
- *Redundancy and Restructuring Costs.* A budget of £2.6m has been set aside for 2013/14. These costs are anticipated to reduce over the medium term as higher redundancy and severance costs in the earlier years are replaced with the actuarial strain costs of meeting the costs of early retirements which are currently spread over three years.

3.3 Resource assumptions

- Revenue support grant of £95.3m in 2014/15, £81.9m in 2015/16 and £69.6m in 2016/17 (based on national assumptions from the Autumn Statement 2012);
- Council tax freeze grant for 2013/14 incorporated into revenue support grant from 2015/16;
- New Homes Bonus to increase to £9.5m by 2016/17;
- Other unallocated grants to reduce by £0.5m each year;
- Council tax base increase of 0.7% each year;
- Council tax collection of 96% in each year;
- Retained business rates to increase by 3% each year;
- Business rate top-up to increase by 2% each year;

3.4 The assumptions above produced a gap to be bridged for the period 2014/15 to 2016/17 as follows:

Table 1: Estimated Budget Gap at 25 February 2013

	2014/15 £m	2015/16 £m	2016/17 £m
Budget Gap:			
Annual	20.4	17.1	17.3
Cumulative	20.4	37.5	54.8

3.5 The budget gap above follows on from the delivery of cashable savings in recent years of £41.7m (2011/12), £12.5m (2012/13) and £7.3m (2013/14).

4.0 Updated Position

4.1 There are a number of key developments that will affect our projections and these are set out below. However it should be noted that in a number of these there is still uncertainty around the final arrangements so the figures are still subject to change.

Central Government Funding Announcements

4.2 The funding assumptions for 2015/16 onwards were based on national figures set out by the government. This has been subject to change as part of the Spending Round in June and, more significantly, through further details released by the government in a consultation document published at the end of July.

4.3 The Spending Round indicated that local government funding would reduce nationally by 10% in real terms in 2015/16. The further detailed analysis now clarifies that within that 10% reduction there will also be additional funding top-sliced by the government to meet other spending commitments, including the cost of implementing the new arrangements for capping social care contributions.

4.4 Although no specific figures for Brent have been announced it is clear that the additional funding reductions will impact upon all local authorities and need to be reflected in the Council's medium term projections, even if the precise impact remains uncertain.

4.5 The main impact is on the Revenue Support Grant receivable by the Council and this is highlighted in the table below, including more minor revisions to the 2014/15 allocation.

Table 2: Revenue Support Grant Reductions

Year on year reductions	2014/15		2015/16		2016/17	
	£m	%	£m	%	£m	%
Original Forecast	-20.7	-17.8	-13.4	-14.1	-12.3	-15.0
Revised Forecast	-22.7	-19.6	-26.3	-28.2	-13.4	-20.0
Change	-2.0		-12.9		-1.1	

4.6 The government has also recently announced proposals to top-slice £400m of New Homes Bonus funding to be provided to Local Enterprise Partnerships. Based on the latest projections this equates to a loss of funding to Brent of £3.2m from 2015/16.

- 4.7 The arrangement for the 2013/14 council tax freeze grant will now be in place for the 2014/15 and 2015/16 financial years. On the basis that the existing medium term financial outlook contains no council tax increases this funding has been incorporated into the projections for those years.

Other Funding

- 4.8 The estimates of the Council's funding have increased for:
- Retained share of business rates – reflecting anticipated income in relation to the London Designer Outlet
 - Surplus on the Collection Fund
 - Updated estimate of the council tax base

Central Items

- 4.9 The forecasts within central items have been subject to review and the following adjustments have been incorporated:
- The continued low interest rate environment has enabled a reduction of £2m in the capital financing budget
 - Other grant income has been re-profiled and a permanent increase of £288k included

Revised Gap

- 4.14 A summary of all the changes above is set out in Appendix 1. In broad terms the gap has reduced in 2014/15 but has significantly increased in 2015/16.

Table 3 – Revised Gap

	2014/15 £m	2015/16 £m	2016/17 £m
February 2013	20.4	17.1	17.3
Net Movement	-7.3	16.5	1.9
September 2013	13.1	33.6	19.2

Members are reminded that this forecast is based on no council tax increases over this period and therefore include the receipt of council tax freeze grant. .

5.0 Financial Implications

- 5.1 These are contained in the body of the report. There are no direct costs or other direct financial implications arising from this report.

6.0 Legal Implications

- 6.1 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 Chief Financial Officer is required to report on the robustness of the proposed financial reserves.
- 8.2 Under the Brent Member Code of Conduct members are required when reaching decisions to have regard to relevant advice from the Chief Finance Officer and the Monitoring Officer. If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a breach of the Code by individual members if it can be demonstrated that they have not had proper regard to the advice given.
- 8.3 In accordance with the Local Government Finance Act 1992, where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting: (a) any decision relating to the administration or enforcement of Council Tax (b) any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax or (c) any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation. These rules are extremely wide in scope so virtually any Council decision which has financial implications is one which might affect the making of the budget underlying the Council Tax for next year and thus is caught. The former DoE (now DCLG) shared this interpretation as it made clear in its letter to the AMA dated 28th May 1992. Members who make a declaration are not entitled to vote on the matter in question but are not prevented by the section from taking part in the discussion. Breach of the rules is a criminal offence under section 106 which attracts a maximum fine of £1,000.

9.0 Diversity Implications

- 9.1 Impact assessments will be carried out in advance of formulation of budget proposals.

10.0 Staffing Implications

- 10.1 None directly as a result of this report.

11.0 Background Information

- 11.1 Report to Full Council, 25 February 2013–2013/14 Budget and Council Tax.

12.0 Contact Officer

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