



Full Council
18 November 2013

Report of the Chief Finance Officer

For Action

Wards affected:
ALL

First Reading Debate on the Budget

1.0 Summary

- 1.1. This report meets the requirement in Standing Order 24(b) as set out in Part 3 of the Constitution that there is a report presented:

'to Full Council setting out the financial position of the Council, financial forecasts for the following year and the possible expenditure priorities of the Executive. There shall then be a debate on the issues raised in that report held in accordance with Standing Order 44 hereinafter called a "First Reading Debate".'

- 1.2. The record of the 'First Reading Debate' assists the Leader of the Council and the Chair of the Budget and Finance Overview and Scrutiny Committee in shaping the budget. The role of the Budget and Finance Overview and Scrutiny Committee is to assist the budget process by providing detailed input during the Executive's development of its budget proposals. This includes scrutiny of the Executive's budget proposals prior to the Executive's recommendations on the budget being considered at its meeting on 17 February 2014, as well as further consideration after the Executive's recommendations have been made.

- 1.3. Final decisions on the budget and the level of Council tax for 2014/15 will be made at Full Council on 3 March 2014.

Meeting
Date

Version no.
Date

1.4. This report has been written on the basis of the best information available to the Council at this stage. Further details on the Council's funding will follow on from the Autumn Statement and the draft local government finance settlement, both of which are expected in December.

1.5 In addition, the ongoing impact of developments in the wider economy and the impact of welfare reform mean that underlying assumptions about pay and price increases, interest rates, service pressures and other items within the Council's medium term financial strategy will need to be kept under close review.

2.0 Recommendation

2.1 Full Council is recommended to note the content of this report and consider the issues set out in this report when it holds its 'First Reading Debate' for the purposes of Standing Order 25(a).

3.0 Background to the budget and medium term financial plan

3.1 The 2013/14 budget was agreed at Full Council on 26 February 2013. Key features of the budget agreed for 2013/14 were:

- A General Fund budget requirement of £284.3m;
- No Council tax increase for Brent services leading to a Band D level of £1,058.94;
- An overall Council tax reduction of 0.3%, including the GLA precept, leading to a Council tax for Band D properties of £1,361.94;
- Reserves of £12m, which was at the lower end of the planned range of £12m to £15m agreed by Council, based on the s151 officer's assessment of financial risks;
- Financial projections for future years modelled on the basis of no council tax increase and that balances would remain at £12m.

3.2 The projections for future years produced a gap to be bridged for the period 2014/15 to 2016/17 as shown overleaf:

Table One: Estimated Budget Gap at 26 February 2013

	2014/15 £m	2015/16 £m	2016/17 £m
Net Savings Required	27.8	18.8	17.2
Savings Identified	(7.4)	(1.6)	0.0
Budget Gap:			
Annual	20.4	17.2	17.2
Cumulative	20.4	37.6	54.8

3.3 This budget gap was subsequently updated in a report to the October 2013 Executive to reflect:

- Changes to government funding forecasts following the Spending Round in June and subsequent technical consultation in late July 2013
- Revised forecasts for the retained share of business rates, council tax yield and the collection fund surplus
- The announcement that the council tax freeze grant arrangements will continue for 2014/15 and 2015/16
- Update on anticipated pressures, particularly on capital finance and social care
- Changes to other savings assumptions in the budget.

3.4 The overall impact of these changes was an improvement in the outlook for 2014/15 but a significant deterioration for 2015/16, as set out in table two, below. Many London boroughs reported similar changes to their financial planning assumptions following the June and July announcements.

Table Two: Revised Budget Gap

	2014/15 £m	2015/16 £m	2016/17 £m
February 2013	20.4	17.2	17.2
Net Movement	(7.3)	16.4	2.0
October 2013	13.1	33.6	19.2

- 3.5 A more detailed analysis of the overall position incorporating the above changes is set out in appendix one. The schedule of central items is set out at appendix two.

4.0 General Fund revenue budget issues

2014/15 Budget Proposals

- 4.1 The administration has undertaken a review of all service budgets to identify areas to bridge the 2014/15 budget gap. The summary by department is set out below with the schedule of savings set out in appendix three.

Table Three: Summary of 2014/15 Draft Savings

Heading	Existing MTFS £'000	New Proposals £'000	Total £'000
Adult Social Care	2,790	988	3,778
Children & Families	627	1,790	2,417
Environment & Neighbourhoods	1,494	1,335	2,829
Regeneration & Growth	24	1,860	1,884
Central	2,458	4,488	6,946
	7,393	10,461	17,854

- 4.2 In addition to the new savings proposals a review of spending pressures has been undertaken, in particular to reflect the latest position on temporary accommodation and social care client numbers. This has led to a further improvement of £2.6m in 2014/15 meaning that the budget position for that year is balanced, pending any further developments, including the impact of local government finance settlement

Medium Term Financial Challenge

- 4.3 As set out in table two, the Council faces an estimated funding gap of £33.6m in 2015/16 and £19.2m in 2016/17. Most commentators agree that, whatever interpretation is placed on recently improved economic indicators, the downward pressure on public expenditure is likely to continue for some years beyond the Council's current financial planning horizon.

- 4.4 This means that the Council's budget strategy will need to include:
- A focus on medium to long-term planning;
 - A consideration of radical transformation of the Council and of the way it works with its partners and the communities it serves, incorporating an increasing emphasis on preventing and managing the demand for services;
 - An emphasis on doing more to support independence and resilience;
 - Developing new cross-council One Council Programme projects which will form the basis for budget savings in future years;
 - A recognition of the financial costs, risks and opportunities for the Council of the impact of new and proposed legislative changes, such as welfare reform and greater integration of social care and health services, and an assessment of the impact of these on the communities that the council serves;
 - An ongoing and sharper focus on reviewing existing service and central budgets.
- 4.5 Budget options will be developed in the context of the priorities and values set-out in the Borough and Corporate Plans. These set out the Council and partners' vision for the borough: "creating opportunities, improving lives".

The vision is underpinned by six priority themes. These are:

- Building a strong community
- Promoting jobs, growth and fair pay
- Making Brent safer, cleaner and greener
- Improving health and well-being
- Improving lives for children and families
- Developing better ways of working

Partners in Brent have agreed a set of values which inform all our work:

- **Fairness** Our actions will reduce inequality and promote fairness and justice, in particular for the most vulnerable people in our community. We will work co-operatively to respond to the different needs of local communities and individuals ensuring cohesion and resilience in Brent.
- **Respect** We will respect local people, engage them in decision-making and support their independence.
- **Excellence** We will strive to ensure the best possible services are provided for local people and re-designed with local people at a fair and affordable cost.

- 4.6 These values and priorities form the framework which will guide the difficult decisions the Council will need to make as it identifies budget options for the future. These will be refreshed in collaboration with local people after the elections in May 2014.
- 4.7 In identifying budget options, the Council will work with its partners and residents to minimise the impact on the vulnerable and on front-line services and is committed to a widespread programme of consultation, including through an on-line tool that enables residents to express preferences about budget priorities.
- 4.8 To date this consultation has shown that residents consider it important that the council protects services to the vulnerable, such as safeguarding, and that they also place a high value on the ongoing physical regeneration of the borough. Universal services, such as waste collection, were regarded as a medium priority, with an acceptance amongst those surveyed to date that reductions in these areas might be necessary. Much lower priority was placed on internal support services, and also on services such as Public Health and promoting healthy lifestyles, arts and sports development.

5.0 Schools' Budget

- 5.1 The Schools' Budget is funded directly from a Dedicated Schools' Grant (DSG) which is ring-fenced and does not appear as part of the Council's overall budget requirement. Schools are also allowed to build reasonable levels of reserves which are also ring-fenced.
- 5.2 The government announced in the last Spending Review that schools' spending was a priority area and, although overall Department for Education (DfE) funding fell by almost 11%, allocations of DSG per pupil to local authorities were unchanged on a cash basis.
- 5.3 The council is required to consult the Schools' Forum, which consists of representatives of the different schools sectors and includes head-teachers and governors, on the setting of the Schools' Budget. The Schools' Forum and its sub groups have been considering changes to the funding formula which have been the subject of consultation with schools more widely. These deliberations have been concluded and will result in a set of recommendations to the Council's Executive in December 2013.
- 5.4 A key policy issue that will be addressed as part of this is the funding ratio between the primary and secondary school sectors, where the DfE has been encouraging local authorities to move closer to national averages. A report to the Executive is scheduled for December to consider this matter further. As part of the forward financial planning process officers will also seek to assess the potential implications of a move to a national funding formula, which to date have not been quantified.

- 5.5 Final decisions on the allocation of the Schools' Budget will be taken as part of the overall budget process, following the completion of which all maintained schools will have their final budgets confirmed.

6.0 Housing Revenue Account

- 6.1 The Housing Revenue Account (HRA) covers the activities of the Council as landlord for approximately 9,000 freehold dwellings and 200 leasehold dwellings. The HRA is separate from the General Fund and is ring-fenced – i.e. HRA expenditure is met from HRA resources which primarily consist of rent income and not from Council tax or other General Fund resources.
- 6.2 From April 2012 the former HRA subsidy system ended and the HRA is now self-financing. A new HRA asset management strategy, which takes account of the arrangements under self-financing, was considered by the Executive in November 2013.
- 6.3 The annual rent increase for Council dwellings takes account of the government's guidelines on convergence between rents charged by Councils and Registered Social Landlords (mainly housing associations). Although the Government has indicated that it expects councils to follow these guidelines there is not currently an absolute obligation to do so. However, the Government has assumed under the new HRA self financing system that local authorities will follow national rent policy when setting rents.
- 6.4 In February 2014 the Executive will decide on the rent increase to be applied in 2014/15. The HRA budget will be agreed by Full Council on 3 March 2014 as part of its consideration of the overall Council budget report.

7.0 Capital Programme

- 7.1 The capital programme is a four year rolling programme which is up-dated each year to reflect the priorities set out in the Borough Plan and the asset management priorities. The current capital programme was agreed as part of the overall 2013/14 budget process in February 2013 and has been up-dated to reflect subsequent changes, including accounting for slippage of previous years' spending into 2013/14.
- 7.2 The key challenges for the development of the capital programme are:
- a. To revisit the estimated sources of funding, taking into account the continuing impact of the wider economic activity on other contributions such as levels of developer contributions arising from major development projects.
 - b. To optimise the way that the Council levers in additional funding and maximises the opportunities to enhance the wider value obtained from use of its own assets.

- c. The ongoing need in particular to provide additional school places across the borough and also to address other demands for capital finance.
 - d. To consider how best to facilitate the delivery of housing policy priorities through the flexibilities available through the new HRA financing regime, and to ensure that opportunities to link these to wider regeneration and other priorities are pursued.
 - e. In the light of the above to ensure that the up-dated capital programme delivers the Council's key priorities within the resources available.
- 7.3 The capital programme has historically, and is currently based on the assumption that a level of new unsupported borrowing will be entered into each year.
- 7.4 This strategy increases unsupported borrowing costs each year at a time when revenue resources are falling leading to interest costs taking up an increasing share of total revenue resources. Members could decide to reduce that unsupported borrowing as a way of helping bridge the budget gap in future years. Achieving this would mean either reductions in the capital programme or the identification of additional funding sources other than borrowing that are not already accounted for in the capital programme.
- 7.5 Borrowing levels currently included in the capital programme are set out in detail in appendix four, and summarised in table four, below.

Table four: Summary of planned future borrowing

	2014/15 £000	2015/16 £000	2016/17 £000
Unsupported Borrowing	6,973	6,973	6,973
Unsupported Borrowing – Self Funded	990	200	200
Total new borrowing (per annum)	7,963	7,173	7,173

- 7.6 The elements of borrowing for which the costs are borne centrally and for which measures could be taken to reduce the revenue budget gap are the supported and unsupported borrowing. The borrowing costs from the Self Funded elements of unsupported borrowing are met from service revenue budgets respectively and reflect committed schemes for which there is budgetary provision.

8.0 Timetable

8.1 The timetable for finalising the 2014/15 budget is attached as appendix five. The key events and dates are:

- the Chancellor's Autumn Statement on 4 December 2013;
- the release of the Mayor's consultation on the GLA budget mid-December 2013;
- the provisional local government finance settlement, which is expected by 20 December;
- the administration's revised draft proposals issued early February 2014;
- Executive decides budget recommendations to Full Council at its meeting of 17 February 2014;
- GLA budget agreed by 17 February 2014;
- Full Council decides budget on 3 March 2014.

8.2 The Budget and Finance Overview and Scrutiny Committee will be scrutinising the budget at various stages of this process: prior to the administration's draft proposals being issued; after the proposals have been issued, with their discussions feeding into Executive consideration of the budget proposals on 17 February; and following the decisions of the Executive, feeding into the Council budget debate. Last year the Overview and Scrutiny Committee invited a range of members to its meeting preceding the Executive's consideration of the budget proposals and the intention will be to follow the same approach this year.

9.0 Financial Implications

9.1 The recommendations of this report do not have specific financial consequences at this stage, as the formal decisions on the budget will be taken at later stages, as set out in section eight of this report. However, the report is entirely concerned with financial implications which have far reaching consequences for the Council's services in future years.

10.0 Legal Implications

10.1 The Council's Standing Orders contain detailed rules on the development of the Council's budget. Some elements of these rules are required by the Local Authorities (Standing Orders) (England) Regulations 2001 but a number are locally determined.

- 10.2 In the case of the Council's annual budget, including the capital programme, under Standing Order 24(b) of the Council's Standing Orders as set out in Part 3 of the Council's Constitution, the Executive is required under the Constitution to present a report to Full Council setting out the financial position of the Council, financial forecasts for the following year and their expenditure priorities. This report sets out the required information. There will be a debate on the issues raised herein and in the separate report, which will be conducted in accordance with Standing Order 44. This is known as the "First Reading Debate" and this will take place at the Full Council meeting on 18 November 2013.
- 10.3 Following the First Reading Debate, a record of the debate will be sent to the Leader and to Chair of the Budget and Finance Overview and Scrutiny Committee. The Budget and Finance Overview and Scrutiny Committee will meet and produce a report setting out its view of the budget priorities and any other issues it considers relevant. This report will be submitted to each Executive Member and each Group Leader in order to inform budget proposal discussions. Prior to being agreed by the Executive, the Executive's budget proposals will be sent to members of the Budget and Finance Overview and Scrutiny Committee which will consider the proposals and submit a note of its deliberations and comments on the proposals to the Executive. The Executive will take into account the issues raised at the First Reading Debate and the note of the deliberations and comments from the Budget and Finance Overview and Scrutiny Committee in making its budget recommendations to Full Council.
- 10.4 The final proposals will be submitted by the Leader to a special meeting of Full Council for consideration and determination no later than 10th March in accordance with Standing Order 34. There is a statutory dispute procedure set out in Standing Order 25 to deal with circumstances where there is a disagreement between the Council and Executive on the budget proposals but this only applies where the budget setting meeting takes place before the 8th of February.

11.0 Diversity Implications

- 11.1 Prioritisation and decision making as part of the budget process are tied into the Council's corporate strategy, individual strategies and service development plans. The priorities within these reflect the Council's commitment to tackling discrimination and disadvantage as part of its Equalities action plan (formally referred to as its Comprehensive Equality Plan). In addition, services are required to carry out Equalities Analysis Assessments Requirements Assessments where it is considered that individual growth and savings proposals could have an equality impact. The impact of budget decisions is monitored through the Council's performance monitoring systems. Members need to bear in mind the diversity implications of any proposals they put forward as part of the First Reading Debate.

12.0 Background Papers

Budget Report – Full Council 26 February 2013
Budget Strategy – Executive 14 October 2013

13.0 Contact Officers

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