Brent	**Cabinet** 13 October 2014 **Report from the Chief Finance Officer**
	Wards affected: ALL

Budget strategy and financing update

1.0 Introduction

1.1 This report updates the Council's funding forecasts for the next four years. It takes account of anticipated spending pressures, whether driven by changes in legislation, demographic trends or local policy intentions and provides updated estimates of the financial impact of these. It also takes account of updated information on financing from central government and other sources, where this is available.

1.2 The report therefore provides an updated summary of the significant financial challenges that the council will need to meet over the next four years, with a particular emphasis on the years 2015/16 and 2016/17.

1.3 This report does not deal with proposed savings. It merely sets out the financial context against which savings will need to be considered as part of the normal budget making process.

2.0 Recommendations

2.1 To note the latest forecasts for the Council's financial position for 2015/16 to 2018/19.

3.0 Spending pressures

3.1 The council has been planning on the basis of a budget gap of £52.8m over the next two years. This was a planning assumption, and it is normal practice to update such assumptions annually, to reflect changed circumstances.

3.2 The council needs to reduce its total costs significantly in order to set an affordable budget. However, before reductions in costs can be considered it is essential to understand the various spending pressures that will also need to be managed as part of the budget process. These can be driven by changes to legislation, they can arise as a result of changing demographics within Brent and they can arise as a result of locally determined policy choices.

Legislative changes

3.3 The principal issue to consider here is the proposed changes to the regime for parking enforcement. The DCLG has consulted on a package of measures that it proposed would lead to better and/or fairer management of the parking service. Amongst other things these proposals, if adopted, would lead to banning the use of mobile CCTV cameras to enforce parking contraventions (except in certain highly specified circumstances) and applying mandatory grace (overstay) periods of 15 minutes for on street parking.

3.4 Brent enforces parking regulations to manage the flow of traffic on its highways. It recovers the cost of this from the payments for parking charges, and invests any surpluses made back into highway related expenditure, as defined in the Road Traffic Act 1984.The current estimate is that if the changes proposed by DCLG were implemented in full then the funds available for re-investment would be reduced by some £2.2m.

3.5 Brent has argued strongly that the proposed changes will not assist, but will instead hinder, the effective management of its highways and will risk increasing congestion and inconsiderate parking. However, in the event that the changes are adopted then the financial consequence of this need to be taken into account in the council's financial planning. As stated above, the present estimate is that this will add some £2.2m to the council's net costs, which if no other action were taken would be the equivalent of a council tax increase of nearly 3%.

3.6 In addition, another report on this agenda discusses the implications of a pilot for different parking enforcement policies for removal of illegally parked cars. This report, if agreed, is estimated to reduce the amount available for reinvestment from the parking account by £0.3m.

3.7 The Care Act is another significant factor. The principal changes that this will bring about in the care economy will be to limit the lifetime contributions that any individual can be required to make for the cost of their care and to create enhanced rights for carers, and payments that they can as a result receive.

3.8 It is more difficult to estimate the costs of this than it is for the proposed changes to parking discussed above. This is because the proposed changes to parking are about removing or existing enforcement methods, the service and financial consequences of which can be predicted based on previous experience. In the case of the Care Act a new requirement will be introduced for local authorities to cap the fees payable by any individual for their care at £72,000 in their lifetime and new responsibilities will be created to provide financial compensation to carers from April 2015. These are inherently harder to estimate.

3.9 At present Brent carries out financial assessments in line with national guidance, following which recipients of adult care services may be required to make a financial contribution to the cost of their care. It is difficult to assess how many residents currently contribute more than the proposed cap in the lifetime, as the data had to date not been collected in this format. There are further complications in the legislation that will mean that the “care account” for a resident is ‘portable’, so that the lifetime cap applies even if someone moves from one local authority to another. (i.e. that their total contributions to two or more authorities will not exceed the cap).

3.10 Taken together the impact of the Care Bill is currently estimated to be £1m in 2015/16. Costs will then rise significantly, perhaps to £9m by 2019/20 as residents hit the caps in their care accounts, but the impact of this is unlikely to be significant until 2017/18.

Demographic changes

3.11 Brent has a large and growing population, currently 317,000. Measured by numbers of residents it is the fifth largest borough in London and one of the most densely populated and most diverse. The borough has experienced growth of over four per cent in the past five years and continued growth at this rate will bring the population to 322,000 in the next four years. There are three main reasons for this increase: a comparatively high birth rate, net inward migration of working age adults and people living longer. This increase is putting increasing demands on all council services, but in particular housing, waste collection and social care.

3.12 There has been significant growth at both ends of the age spectrum; the number of residents aged under 10 years of age and aged over 65 years have each increased by more than 10 per cent in the past five years. The biggest population growth, however, has been in the over 80s; this group has increased by 24 per cent over the past five years. Population growth at both extremities of the age spectrum has very significant implications for public services – for example, the increase in numbers of under 10s requires additional school places and growth of the over 80s needs extra spending on care services.

3.13 A quarter of Brent’s population is under 19 and of this age group 29 per cent are deemed to be living in poverty. The rapidly growing young population places extra demand on the children’s social care services and costs for school places.

3.14 There is also an increasing demand on adult social care in Brent. This is driven by an increase in the over 80 year olds, declining health and deprivation. As people are living longer, they are experiencing more complex health conditions in later life. Mental ill health is the single largest cause of early death in Brent. Estimates show that in a given week, 11 per cent of Brent’s adults experience depression, higher than the England average of 8 per cent. The number of people with a moderate/severe learning disability has grown 5 per cent between 2010 and 2015 and is predicted to grow 5 per cent between 2015 and 2020. The costs are often higher to support people with challenging behaviours. From April 2016, anyone born with a disability will not need to pay for any care and support. In the long-term this will create a significant budget demand on care services.

3.15 The council tracks demographics closely, as a means of understanding the population that it serves and the costs of so doing. As part of the budget strategy endorsed in October 2013 demographic led growth of £2.7m was set aside over 2015/16 and 2016/17 to cover the costs associated with this. However, the rate of demographic change has accelerated since then, as has our understanding of the population as more data sets are released from the 2011 census. At this stage it is considered prudent to increase the cost estimate for demographic pressures by £1.0m over the period to 2016/17.

Policy driven changes

3.16 As well as responding to the national legislative demands and redesigning services to meet changing demographics the council also needs to consider its own policy agenda, and in particular how it can shape the borough’s economy in order to improve the lives of its residents. Managed effectively, policies in this area could also have the ancillary benefit of reducing the council’s long-term costs, but the implementation and short run costs might be very significant.

3.17 A key policy in this area is the London Living Wage. This seeks to recognise the additional costs that flow from living in London, such as for housing in particular, and is therefore set above the level of the national minimum wage. Currently it is set at £8.80 and is reviewed annually. Such reviews have tended to increase the LLW at more than the rate of general inflation in recent years.

3.18 Brent pays all of its directly employed staff at least the LLW. It encourages suppliers to do the same, but cannot mandate them to do so, nor, by law, can it require it as a condition of winning council contracts. It can, however, ask bidders to price for the LLW in tenders as an alternative or variant bid, and then consider this in contract award.

3.19 A more detailed report will be brought back to Cabinet in due course on the implementation of the LLW. As it is a clearly expressed policy goal of the Administration it is appropriate to consider it as part of the council's budget strategy. The cost of implementing the policy is not a simple matter to calculate, depending as it does on assumptions about current wage levels in supply chains and the behaviour of contractors.

3.20 The initial estimates of the cost of implementing the LLW are in a broad range of £6m to £11m. Significant further work will be required to refine these initial estimates. As part of formal adoption of a policy aimed at making all of the council's contracts LLW compliant (to the extent that this is permissible by law) consideration would need to be given to the time period over which this was achieved. This would be consistent with the advice from the LLW Foundation, which endorses an approach of gradual implementation.

3.21 The council will need to recognise other unavoidable cost pressures as part of its budget strategy. These will include inflation (which is relatively low at present) where this is unavoidable and ensuring that adequate budgets are set aside to maintain and optimise the use of key assets, especially the Civic Centre.

3.22 The effects of these legislative and demographic and on the savings target are set out in Table 1, below. Policy driven changes are not shown in this table, because they cannot be quantified at this stage pending further financial assessment and formal adoption.

Table 1: Impact of legislative and demographic changes

	2015/16	2016/17	Total
	£m	£m	£m
Initial funding gap	33.0	19.8	52.8
Add, parking pressure	2.5	0	
Add, Care Bill pressure	1.0	0	
Funding gap after legislative changes	36.5	19.8	56.0
Add, demographic changes	0.5	0.5	
Funding gap after legislative changes	37.0	20.3	57.3

4.0 Updated financing assumptions 2015/16 to 2016/17

4.1 The Budget Strategy Update report to Executive on 14 October 2013 included a financial forecast for 2015/16 and 2016/17 which included the following funding assumptions:

- Revenue support grant of £66.9m in 2015/16 and £53.6m in 2016/17 (based on national funding announcements by the government during the summer of 2013);
- Council tax freeze grant in respect of 2014/15 would also be received in 2015/16;
- New Homes Bonus to be top-sliced by £400m nationally in 2015/16;
- Council tax base increase of 1% each year;
- Council tax collection of 96% for each year.

4.2 Forecasts for the four year period to 2017/18 have been produced to enable the Council to develop its medium term plan. However, officers do not anticipate any national funding allocations for 2016/17 onwards to be announced until after the next General Election. Figures in this report for 2016/17 and later years must therefore be treated with some significant caution.

Central Government Funding Announcements

4.3 The funding assumption for 2015/16 is based on the Local Government Finance Settlement figures produced by the Government in January 2014.

4.4 Figures for later years are based on modelling work undertaken by the Local Government Association and London Councils. The assumptions underpinning this are in turn based on key macro economic forecasts and other data, produced by organisations such as the Office for Budget Responsibility and Office for National Statistics. It is therefore clearly reasonable for Members to use this as a source of information for financial planning, but to be mindful of the inherent uncertainties in such data.

4.5 To set these funding estimates in context it is relevant to note that London Councils, the umbrella group representing London local government has recently commented that:

"London Councils believes the local government finance system is, in its current form, not sustainable. In the past two spending reviews, local government has been asked to deliver a significant proportion of public spending reductions (28% real terms reduction in Spending Review 2010 and 10% real terms reduction in Spending Round 2013 compared to just 6% and 3% respectively for all government departments).

London Councils' modelling suggests this will translate into a 60% real terms reduction in core funding to local government by 2018-19, compared with a real terms reduction of just 3% for the whole public sector over the same period."

4.6 Officers recommend using projections in the mid-range of those provided for the core elements of funding determined by central government, as set out in Table Two, below.

Table 2: Core Funding Projections

	2014/15 £'m	2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m
Revenue Support Grant	95.4	68.8	54.4	41.8	29.8
Business Rate Top-Up	47.4	48.8	50.5	52.5	54.5
2014/15 Council Tax Freeze Grant	1.1	1.1	1.1	1.1	1.1
Total	**143.9**	**118.7**	**106.0**	**95.4**	**85.4**
Total – October 2013	143.4	118.5	104.2	-	-
Funding Increase	+0.5	+0.2	+1.8	-	-

4.7 Business rates top up (BRTU) grant is assumed to increase with inflation. The LGA model assumes a reduction in the aggregate funding of this and RSG of 8% in 2016/17 and 7% in future years. As a result whereas RSG is currently about twice the level of BRTU by 2018/19 it will probably be about half.

4.8 The estimated total core funding for 2015/16 has increased by £0.2m compared to the forecast in October 2013. The figure for 2016/17 has increased by £1.8m.

Business Rates

4.9 Under the retention system introduced in April 2013 the Council retains 30% of business rates paid within Brent. Projections for future years are determined by estimates of:

- RPI inflation
- Changes in number and rateable value of businesses
- Outcome of appeals against rateable values

4.10 Based on the latest projections it is estimated that locally retained business rates will increase by 4.5% each year, although this will need to be carefully monitored as the backlog of appeals lodged with the Valuation Office Agency is cleared. The potential for significant adjustments to income resulting from appeals is one of the biggest funding risks the Council faces and means that estimates of the balance on the Collection Fund (covering both business rates and council tax) are uncertain.

4.11 The estimated retained business income for 2015/16 has decreased by £0.5m compared to the forecast in October 2013. The figure for 2016/17 has decreased by £0.7m. This reflects the actual rateable valuations within the London Designer Outlet and the impact of successful appeals.

Council Tax

4.12 Based on the latest information the council taxbase within Brent is higher than anticipated a year ago and this is projected to continue through to the next financial year.

4.13 The key issues driving this increase are:

- Number of properties within the borough
- Value of council tax discounts awarded, particularly in respect of the council tax support scheme

The latter point is particularly relevant as the council tax support scheme means that Council's council tax income is now affected by changes in employment levels within Brent.

4.14 The estimated council tax income, in both 2015/16 and 2016/17, has increased by £1.5m compared to the forecast in October 2013. This is a feature of the number of properties in the borough and their economic circumstances. The council tax levied by Brent Council has not changed for five years.

4.15 The increased taxbase, along with the in-year collection performance, feeds into the calculation of balance on the Collection Fund at the end of each financial year. This is then shared between the Council and Greater London Authority in the following year. The Collection Fund balance will be determined by the Cabinet in December in accordance with the statutory timeline for its calculation.

Other Funding

4.16 During 2013 the government recently announced proposals to top-slice £400m of New Homes Bonus funding nationally to be provided to Local Enterprise Partnerships. This has subsequently been revised to only impact on London, with £70m being deducted from the boroughs.

4.17 The latest projection for New Homes Bonus funding for the Council, reflecting the latest housing projections and the top-slice is that the Council will receive £5.0m in 2015/16, increasing to £6.0m in 2016/17.

5.0 Revenue finance position

5.1 The overall funding estimates outlined in this report are summarised in Table three, below. These figures do not assume any rise in the level of council tax.

Table 3: Overall Funding Projections

	2014/15 £'m	2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m
Core Funding	143.9	118.7	105.9	95.4	85.4
Business Rates	34.7	36.2	37.8	39.4	41.1
Council Tax Base	83.9	85.9	86.8	87.7	88.6
Collection Fund Surplus	2.5	0.0	0.0	0.0	0.0
New Homes Bonus	6.2	5.0	6.0	6.0	5.2
Total	**271.1**	**245.8**	**236.5**	**228.5**	**220.3**

5.2 The updated financial forecasts represent an increase in funding compared to those previously assumed for 2015/16 and 2016/17. The changes are set out in Table 4 below.

Table 4: Cumulative Changes in Funding Projections to 2016/17

	2015/16 £'m	2016/17 £'m
Revised savings gap, table one	37.0	20.3
Less, improvement in core funding	(0.2)	(1.8)
Add, worsening in business rates	0.5	0.7
Less, improvement in council tax base	(1.5)	(1.5)
Add, worsening in new homes bonus	0.0	0.4
Total	**35.8**	**18.1**

6.0 Capital Programme/Dedicated Schools Grant/Housing Revenue Account

6.1 In setting the budget last year the council did not extend its previously agreed capital programme, other than to recognise where new grants and other specific sources of funding had been allocated by funding agencies. On this basis the capital programme is summarised in Table five, below.

6.2 Extending the programme to 2018/19 will provide an opportunity to identify the Council's priorities for investment in infrastructure across the borough. However the challenging funding outlook means that there is limited scope for schemes that increase the burden on the council's revenue budget.

Table 5 – Forecast Capital Programme Summary

Service Area	2014/15 £000	2015/16 £000	2016/17 £000
Expenditure			
Regeneration and Growth	93,574	114,238	34,801
Environment and Neighbourhoods	12,539	7,819	7,569
Adult Social Care	600	2,748	748
Children & Young People	306	300	0
Central	400	400	400
Total GF expenditure	**107,419**	**125,505**	**43,518**
Housing HRA	23,726	25,811	10,362
Total Expenditure	**131,145**	**151,316**	**53,880**
Resources			
Grant and External Contributions	(83,929)	(111,353)	(34,040)
Internal Contributions	(2,167)	(966)	(900)
Capital Receipts	(2,468)	(2,638)	(1,637)
S106 & CIL Funding	(3,278)	(126)	(10)
Unsupported Borrowing	(14,880)	(10,422)	(6,931)
Self-funded borrowing	(697)	0	0
Total GF Resources	**(107,419)**	**(125,505)**	**(43,518)**
Housing HRA	(23,726)	(25,811)	(10,362)
Total Resources	**(131,145)**	**(151,316)**	**(53,880)**

This table assumes that the budget virements contained in the finance report on the agenda for Cabinet on 13 October 2014 are agreed.

6.3 In considering the financing of the capital programme Members need to bear in mind the source of the financing. Capital receipts and unsupported borrowing are un ring fenced contributions that give the council complete discretion as to what assets are invested in.

6.4 However, unsupported borrowing in its current form is unlikely to be sustainable beyond 2016/17. Table five shows that the council currently plans to raise around £13.6m of general capital financing by this route to 2016/17. At current historically low interest rates the financing charge is likely to be around £1m p.a. (including provision for repayment of principal). Borrowing to finance investments or projects that will have a financial payback can be approved on a case by case basis, but the council's overall financial position is likely to mean that further borrowing for general purposes is unlikely to be affordable beyond this date.

6.5 Capital receipts are also declining over the period and are likely to continue to do so beyond that date. The council has only a finite number of capital assets, and once strategic sites in which the council has a long-term interest are taken into account the prospect for future cash generating disposals diminishes.

6.6 This leaves s106/CIL as sources of finance over which the council has some influence, but not direct control, and grants, which are normally specified for particular purposes by the grant giving department.

6.7 In short, the council's ability to determine its future capital programme is becoming more constrained. If other sources of financing are not identified in the medium term then the eventual consequence will be that the council's capital programme is entirely centrally determined.

6.8 Further reports on the capital programme to 2017/18 and 2018/19 will be brought to Cabinet during the budget setting process. At this stage Cabinet are merely requested to note the position.

6.9 It is also relevant in setting the budget to consider the likely amount of the Dedicated Schools' Grant (DSG). Technically this forms part of the general fund, but in practice most of it is delegated to schools according to a locally agreed formula for them to manage directly. Following discussions with the schools' forum elements of the DSG are also retained centrally to pay for certain services that are more effectively commissioned at the borough rather than school level.

6.10 The total DSG is set nationally, having regard to the number of school age children, weighted for factors such as the number of those with English as a second language and other factors that are assumed to affect the average cost of providing educational services. Once more accurate data from the DfE is available to inform the 2015/16 budget then more precise determinations can be made.

6.11 It is worth noting that education funding generally, and for schools in particular, has been rising above the rate of inflation since 2010, in contrast to other council funding which has suffered real and cash decreases, and that this trend is expected to continue.

6.12 The Housing Revenue Account (HRA) follows a different budget setting cycle to the general fund. The key determinant is the rent increase, as rent accounts for over 90% of the income to the HRA. Councils are expected, but not required, to follow the Government's guidance on social rent policy, which is to increase rents annually from 2015 onwards by CPI plus 1%. In November 2013, when considering the HRA asset management strategy, the Council's Executive agreed a rent policy for 2014-2019 in which council rents should increase in line with the former rent convergence regime, and specifically from 2015, by CPI plus 1% plus £2, subject to annual approval by the Cabinet (formerly Executive).

6.13 A separate report on the HRA budget and rent setting for 2015-16 will be brought to Cabinet in February 2015.

7.0 Financial Implications

7.1 There are no direct financial implications of agreeing the recommendations of this report. However, the entire report is clearly highly relevant to the council's overall financial standing.

7.2 The overall budget setting timetable for the 2015/16 is set out below:

Date	Activity
17/11/14	Full Council: First Reading debate
15/12/14	Cabinet: Collection Fund Surplus
26/01/15	Cabinet: Budget Proposals 2015/16
29/01/15	General Purposes: Council Tax Base and Business Rates Estimate
02/03/15	Full Council: Budget and Council Tax Setting

8.0 Legal Implications

8.1 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 Executive, 14 October 2013 – Budget Strategy Update

12.0 Contact Officer

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