



Full Council
8 December 2014

Report of the Chief Finance Officer

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. Final decisions on the budget and the level of Council tax for 2015/16 will be made at Full Council on 2 March 2015.

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 as part of the First Reading Debate.

3.0 Background to the budget and medium term financial plan

- 3.1 On 2 March 2015 the council will be required to set its budget for 2015/16 and its financial plans for future years. Savings of at least £53.9m over the next two years will need to be agreed, most of which will fall due in 2015/16. Over the medium-term, to 2018/19, officers anticipate that total savings of £100m will be required, forcing the council to reduce its net revenue budget by between one third and a half of the current level, on top of savings of £89m that have already been delivered since 2010.
- 3.2 Meeting this unprecedented financial challenge will require radical re-thinking of services and the council structures that currently deliver them. The council will need to confront extremely difficult decisions about which services continue to be provided and at what level.

Introduction and context

- 3.3 People are, on the whole, living longer lives, with increasing consequences for the way in which they need to access care services and the length of time for which they continue to need such services. In Brent, there are now more than 48,500 people aged over 80 years old, up by 24% in the last five years. The number of over 65s has increased by more than 10% in the same period.
- 3.4 This puts pressures on council budgets. Officers have responded to these pressures by redefining models of care provision, increasing the emphasis on programmes designed to enable vulnerable residents to live their own lives without support and, where this is not possible, to exercise greater choice about how their needs are met.
- 3.5 In London the combined impact of a growing and younger population is placing enormous pressure on the demand for school places, especially at the primary phase. In Brent, there are now more than 45,000 children aged less than 10, up by 12% in five years. This has implications on the number of vulnerable children the council provides services to.
- 3.6 These demographic pressures are also driving housing prices to such a level that home ownership is becoming increasingly out of reach for many residents. In Brent an average two bedroom property costs £410,000, nearly 15 times greater than the average annual salary of £28,000. Private rented tenancies as a form of tenure have therefore grown to levels not seen for many years, and for some residents the housing available in the borough is increasingly unaffordable in any form of tenure.
- 3.7 These demographic changes also place particular challenges on those services that all residents access and will continue to need to access, such as street cleaning and refuse collection, the quality of the local built environment and open spaces and all the many other services that local authorities provide. As populations rise so the cost of providing services tends to increase, and the competing demands on the use of the local environment become increasingly difficult to reconcile.
- 3.8 Despite these changes and pressures, or perhaps because of them, residents' expectations of the council continue to change. This relates not just to the range and level of services that the council provides, but also to the way in which it provides them. More and more of our residents expect to be able to deal with the council through digital means, with the ability to obtain information and perform at least routine transactions 24/7. However, whilst services are reconfigured to meet this demand the council needs to ensure that it remains open to those whose needs can only be assessed and met through more traditional service delivery routes.
- 3.9 These demographic and societal changes alone would be a challenge for any organisation to respond to. However, they have been coupled with deep and ongoing reductions to local government funding of a scale and pace not previously seen in the UK public sector. In real terms, funding

for local government has fallen by 43% from 2010/11 to 2015/16 (Source: House of Commons research paper 14/43, September 2014). This is in marked contrast to other parts of the public sector.

- 3.10 Spending on welfare, the NHS and schools have all increased above the rate of inflation for the same period. At the same time, technical changes to the local government finance system have reduced the proportion of funding allocated to meet local needs. In other words, local government's share of public funding has declined, and Brent's share of local government funding has also been affected. The cumulative effect of these changes has been significant for boroughs like Brent, with high levels of local needs to meet.
- 3.11 This trend is set to continue. The government's original policy intention was to eliminate the current account deficit in the lifetime of one Parliament. However, in 2014/15 national borrowing is set to be some £90bn, showing that further funding reductions in the medium term are inevitable unless a future government fundamentally changed this approach to deficit reduction and funding distributions within the UK.
- 3.12 The table, overleaf, shows that by 2018/19 core revenue support grant funding will have fallen to just 13.5% of total council funding, or to around a third of its current level.

Table 1 – Core Government Funding

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'m	£'m	£'m	£'m	£'m
Revenue Support Grant	95.4	68.8	54.4	41.8	29.8
Assumed Retained Business Rate	32.5	33.2	33.8	34.5	35.2
Business Rate Top up	47.4	48.8	50.5	52.5	54.5
Core Government Funding	175.3	150.8	138.7	128.8	119.5
Total Funding	271.1	245.8	236.5	228.5	220.3

4 Consultation and the Borough Plan

- 4.1 The Council is keen to ensure that the difficult decisions facing us as we seek to agree a balanced budget for 2015/16 and 2016/17 are fully informed by the views and priorities of local people.
- 4.2 Accordingly, to help develop a borough plan and sustainable budgets in this context the council has consulted widely with residents, the voluntary and community sectors and other stakeholders. The priorities have been informed by extensive engagement with local people, communities, voluntary organisations and businesses, and by detailed discussions with our partners from all sectors, but at the time that this report was finalised, consultation had not concluded.

- 4.3 Between 16 September and 28 November the council, with its partners, undertook a major consultation exercise to gather information on local people's views of:
- The area where they live
 - Their aspirations for the future of the borough
 - Their spending priorities, including those services they felt should be protected and areas where they felt we could do less
 - What more they, their community group, or others could do to help build strong communities in Brent in the context of shrinking public resources.
- 4.4 We engaged thousands of local people and organisations in this discussion, via the broadest possible range of channels and events, including:
- A call for evidence. This was promoted on the websites of the council and all partners and was also available in leaflet format. Over 200 responses to the call for evidence had been received at the time of drafting this report.
 - An independently administered residents' attitude *survey* of 2,100 local people, selected to be demographically and geographically representative of Brent's population.
 - A series of 11 demographically representative residents' focus groups, attended by approximately 350 local people. This included two workshops specifically for young people.
 - Meetings with local councillors.
 - A series of workshops with local voluntary organisations facilitated by Brent CVS.
 - A number of meetings with local businesses.
 - Workshop sessions at each of the five Brent Connects forums.
 - Five staff roadshows.
 - Meetings between strategic directors and a broad range of partners and consultative groups, including local businesses, school governors, head teachers, and BHP residents.
- 4.5 The consultation is providing a rich picture of people's views of the borough and their priorities for the future. People told us that they valued the diversity and vibrancy of Brent, and that they feel a strong connection to the neighbourhoods where they live, though there was some concern about this sense of community being eroded as the number of people living in rented accommodation grows. Many people expressed a strong sense of community and neighbourhood identity, describing Brent as a friendly, inclusive place with supportive community networks.
- 4.6 People recognised the difficult decisions facing the council as it seeks to make savings on the scale required. However, perhaps understandably, people were mostly reluctant to identify specific service areas which they thought should be cut. The maintenance of

clean, safe public spaces and care for the genuinely vulnerable in our society were consistently identified as priorities.

- 4.7 A significant number of consultees expressed enthusiasm for playing a greater role in service design and delivery, provided that the council, along with voluntary sector organisations, supported them to play this role, either by working in partnership, or providing by appropriate support at the point services were handed over if they were to be run entirely by the community in future.
- 4.8 The findings from this consultation will be used to inform the budget process and are also driving the production of the Borough Plan, which will set out the key priorities for the Council and its partners between 2015 and 2019. The Leader will report further on key priorities at Council.

5.0 General Fund revenue budget issues

- 5.1 The 2014/15 budget was agreed at Full Council on 3 March 2014. Key features of the budget agreed for 2014/15 were:
- A General Fund budget requirement of £269.4m;
 - 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 £1,357.94; and
 - Reserves of £12m, which was at the lower end of the planned range of £12m to £15m agreed by Council, based on the Chief Finance Officer's assessment of budget risks.
- 5.2 At that stage projections for future years produced a gap to be bridged for the period 2015/16 to 2016/17 of £52.8m. This budget gap was subsequently updated in a report to Cabinet in October 2014 to incorporate:
- Legislative changes introduced by central government including parking enforcement and the Care Act, which will cost the council more than the equivalent of a 4% increase in council tax.
 - Demographic changes, reflecting the anticipated increase in the borough's population to 322,000 in the next four years and other anticipated pressures, particularly on capital finance and social care.
 - Updated funding assumptions, including an increase in the council tax base, reflecting new housing developments in the borough.
- 5.3 The overall impact of these changes was a deterioration in the outlook for 2015/16 and an improvement for 2016/17, as set out in table two, below.

Table 2 - Revised Budget Gap

	2015/16 £m	2016/17 £m

Original Gap	33.0	19.8
Additional Pressures	4.0	0.5
Funding Changes	(1.2)	(2.2)
October 2014	35.8	18.1

2015/16 and 2016/17 Budget

- 5.4 Officers are undertaking a review of all service budgets to identify areas to bridge the budget gap over the next two financial years. This work is ongoing and will be considered by the Cabinet at its meeting on 15 December. A summary of the key issues identified to date for each department is set out in the sections below.
- 5.5 Officers have sought to limit the impact on front-line services by focusing spending reductions on support services. To this end a new corporate management structure has already been proposed to drive organisational efficiency. This will better enable the council to respond to the future challenges by reconfiguring service groupings to promote more joined up policy design and more rapid and successful implementation of change. It will also help to future-proof the council and its services by enabling better commissioning and procurement of services in the future, and better contract management of those services that are provided externally, creating opportunities to drive down future costs without stopping services.
- 5.6 Recognising the need to redesign services around the customer and promote better access to services, including radically enhancing the digital offer, the Cabinet has also agreed a new community access strategy. This will target a reduction in the cost of back office services whilst improving the customer experience.
- 5.7 Work to develop a new procurement strategy in the early part of 2015 is expected to have the potential to generate significant efficiencies and will be a key focus of future work.
- 5.8 In consultation with Cabinet members, officers have adopted key principles in reviewing budgets. These follow a clear hierarchy, set out below, so that the focus is on doing things differently and more cheaply in order to preserve key services.
- Driving organisational efficiency
 - Building independence and community resilience
 - Leveraging in resources and income
 - Stopping services completely.
- 5.9 However, to meet the demanding financial challenges the proposals that are in due course put forward will inevitably go beyond transformation, innovation and integration to maintain the current level of support and outcomes. In some cases, services may be reduced to a statutory minimum with a clear focus on those in the most need and in some cases stopped altogether in order to balance the budget.

Adults

- 5.10 The service is looking to promote independence for clients through the development of more supported living accommodation and reduction in residential care placements. In addition, an increase in the use of direct payments is being targeted.
- 5.11 A further area identified for savings is commissioning, both through internal team structures (including Children's services and Public Health) and negotiation with suppliers.
- 5.12 Savings are also being sought through:
- Better co-ordination of service provision through social care and health
 - Continuing to manage the impact of demographic growth
 - Improving the recovery of client contributions due to the Council.

Children & Young People

- 5.13 The main areas being considered for savings relate to the provision of Children's Centres and Youth Services. The options range from reviewing the operating model (including management and infrastructure costs) to a reduction in the level of services provided.
- 5.14 Savings are also being sought through:
- Reducing support costs across the department
 - Integration of the Children's Information Service with other customer facing services.

Environment & Neighbourhoods

- 5.15 The areas under consideration to deliver savings are:
- Review of Brent Transport Service as a One Council project
 - Review of the costs of parking enforcement and charges
 - Reductions in sport development work
 - Potential for charging for bulky waste
 - Reduction in school crossing patrols.
- 5.16 The budget for 2015/16 will also be reduced to reflect decisions already taken, including charging for green waste, the re-tender of the parking contract and the cessation of funding for police community support officers.

Regeneration & Growth

- 5.17 The proposals include the renegotiation of the revenues and benefits contract to deliver improved collection rates at reduced costs, savings from re-tendering contracts for supporting people services and the latest assessment of the impact of welfare reform on the temporary accommodation budget.
- 5.18 Other areas under consideration include:

- Reduction in the revenue budget support to regeneration initiatives across the borough
- Development of a single Employment and Skills service
- Reconfiguration of customer services
- Use of reserves rather than ongoing revenue budgets to fund benefits processing work in advance of the implementation of universal credit.

Central Departments

- 5.19 For central departments proposals for savings of 40% are being developed. These will largely be delivered by reductions to staffing levels and also include:
- Pursuing opportunities to share services with other councils
 - A more targeted approach to the provision of support services, based on an assessment of risk
 - Greater reliance on self-service.
- 5.20 Other areas of council-wide spending managed centrally will also be under review including advertising, learning and development and printing.

6.0 Schools Budget

- 6.1 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.
- 6.2 The past two years have seen major reform to the schools' funding system as a result of the government's commitment to simplify this system and work towards a national school fair funding formula with local discretion. No further changes to the national formula are anticipated for 2015/16.
- 6.3 In July 2014, the Department for Education announced additional national funding of £390m for 2015-16 to provide further resources for the least fairly funded local authorities. It is estimated that Brent schools will benefit from this by approximately £11m.
- 6.4 Education funding has been protected since 2010, growing above the rate of inflation, so the sector has had real-terms funding increases whereas the council has had to contend with actual cash cuts. Brent's maintained schools had balances of £17.6m as at 31 March 2014. This was more in aggregate than the council's entire general reserve.
- 6.5 The council works closely with the school sector, as it does with other partners in the NHS, Police and across the public and voluntary sectors. Formal mechanisms exist, summarised below, for this consultation to take place. Increasingly the council will look to identify ways of working jointly with the schools and other sectors to improve service efficiency and address funding inequities.

- 6.6 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 the funding formula, the funding ratio between primary and secondary sectors, and the options for distributing the additional funding allocated for 2015-16.
- 6.7 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.

7.0 Housing Revenue Account

- 7.1 The Housing Revenue Account (HRA) covers the activities of the Council as landlord for approximately 8,400 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.
- 7.2 The annual rent increase for Council dwellings takes account of the government's guidelines on social rent policy, which for 2015 is to increase rents by CPI plus 1%. Although the Government has indicated that it expects councils to follow these guidelines there is not currently an absolute obligation to do so. In November 2013, the Council's then Executive agreed a rent policy for 2014-2019 in which for 2015, rents should increase by CPI plus 1% plus £2 (towards convergence) subject to annual approval.
- 7.3 In February 2015 the Cabinet will decide on the rent increase to be applied in 2015/16. The HRA budget will be agreed by Full Council on 2 March 2015 as part of its consideration of the overall Council budget report.

8.0 Capital Programme

- 8.1 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 2014/15 budget process in March 2014 and has been up-dated to reflect subsequent changes, including accounting for slippage of previous years' spending into 2014/15.
- 8.2 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.
- 8.3 The capital programme has historically been based on the assumption that a level of new unsupported borrowing will be entered into each year. This is not proposed to be extended beyond the current date of 2016/17.
- 8.4 At a time when revenue resources are falling significantly this would lead 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 to 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.
- 8.5 Borrowing levels currently included in the capital programme are set out in table three, below:

Table 3 - Summary of planned future borrowing

	2015/16 £000	2016/17 £000
Unsupported Borrowing	6,801	6,801
Unsupported Borrowing – Self Funded	200	200
Total new borrowing (per annum)	7,001	7,001

- 8.6 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 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.

9.0 Timetable

- 9.1 The key events and dates in the timetable for finalising the 2015/16 budget are:
- the Chancellor's Autumn Statement on 3 December 2014;
 - initial consideration of draft savings proposals by Cabinet on 15 December 2014
 - the release of the Mayor's consultation on the GLA budget mid-December 2014;

- the provisional local government finance settlement, which is expected in week commencing 15 December 2014;
- Scrutiny Committee to review budget proposals on 6 January 2015;
- Local consultation activities during January and February, including five Brent Connects meetings
- the administration's revised draft proposals issued mid-February 2015;
- Cabinet decides budget recommendations to Full Council at its meeting of 23 February 2015;
- GLA budget agreed by 23 February 2015;
- Full Council decides budget on 2 March 2015.

10.0 Financial Implications

10.1 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. However, the report is entirely concerned with financial implications which have far reaching consequences for the Council's services in future years.

11.0 Legal Implications

11.1 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.

11.2 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 Cabinet 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 8 December 2014.

11.3 Following the First Reading Debate, a record of the debate will be sent to the Leader and to the Chair of the Scrutiny Committee. The 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 Cabinet Member and each Group Leader in order to inform budget proposal discussions. Prior to being agreed by the Cabinet, the Cabinet's budget proposals will be sent to members of the Scrutiny Committee which will consider the proposals and submit a note of its deliberations and comments on the proposals to the Cabinet. The Cabinet will take into account the issues raised at the First Reading Debate and the note of the deliberations and comments from the Scrutiny Committee in making its budget recommendations to Full Council.

- 11.4 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 Cabinet on the budget proposals but this only applies where the budget setting meeting takes place before the 8th of February.
- 11.5 Further and more detailed legal implications will be provided in the Budget Report which will be submitted to the Full Council for consideration on 2 March 2015 when it sets the Council's Budget for the 2015/16 financial year.

12.0 Diversity Implications

- 12.1 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 discrimination, advance equality of opportunity and foster good relations between different groups when making decisions. The PSED supports the council to make decisions in a fair, transparent and accountable way that takes into account the diverse needs of all our local communities. It does not prevent us from making difficult decisions.
- 12.2 The collective savings will have an impact on those vulnerable people who are the greatest users of council services. Officers will conduct rigorous equalities impact analyses of individual budget proposals and also assess their cumulative impact as part of the process, in order to inform the final decision making on the budget.

13.0 Background Papers

Budget Report – Full Council 3 March 2014
Budget Strategy – Cabinet 13 October 2014
House of Commons research paper 14/43, September 2014

CONRAD HALL
Chief Finance Officer

Contact Officers:

Conrad Hall
Chief Finance Officer
conrad.hall@brent.gov.uk
020 8937 6529

Mick Bowden
Operational Director – Finance
mick.bowden@brent.gov.uk
020 8937 1460