Brent	**Full Council** 23 November 2015 **Report from the Chief Finance Officer**
	Wards affected: ALL
First Reading Debate on the budget	

1.0 Introduction

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 2016/17 will be made at Full Council on 22 February 2016

1.3 The Council set its budget and council tax for 2015/16, and its business plans for 2016/17, at the 2 March 2015 meeting. Further savings of £5.9m were also agreed for 2017/18. At that time a funding gap of £0.9m was forecast for 2016/17. Following March 2015 officers began the process of developing options for 2017/18 and 2018/19, initially working to an informal target of £50m savings required for those years.

1.4 Since March the general election has returned a Conservative government, which on 8 July 2015 announced its new budget. Although termed a budget it did not contain the precise tax and savings plans normally included in a budget. However, it did provide useful information about future spending plans, such that the council can update its financial targets for future years, albeit that these are not yet definitive. Further detail will follow with the

Spending Review, anticipated to be announced on 25 November 2015, followed by the provisional local government finance settlement, which is usually released shortly before Christmas.

1.5 The information in the July budget is capable of being interpreted in different ways, and there are considerably more, and greater, uncertainties than would normally be the case at this stage of the planning cycle. There is no doubt that funding for local government will continue to fall sharply, and significant savings will continue to be required for the foreseeable future, but the pace and scale of these reductions could vary significantly. The LGA recently estimated that the impact of a variety of funding announcements could leave local government with £10bn of unfunded liabilities, including reduced income from social rents, reduced s106 receipts due to new exemptions on home building, increased national insurance contributions and the cost of extra business rates appeals. Longer-term financial planning at Brent had already taken account of most of these impacts, with the exception of the change to rent policy which will fundamentally worsen the financial underpinning of the housing revenue account.

1.6 Probably the most likely scenario is that the pace of general fund financing reductions in 2016/17 will be less steep than previously assumed, meaning that the council can set a balanced budget for that year without the need to agree additional savings proposals. However, thereafter the scale of reductions is likely to accelerate, and so any gains in 2016/17 should be regarded as strictly temporary.

1.7 As such, the profiling between years of the savings required is likely to change from that previously assumed, but the overall amount in the period out to 2019/20 should be fairly consistent with previous forecasts or even more challenging. These estimates, it must be stressed, are based on figures published at a national level. Distributional changes between different parts of the public sector, and then between local authorities once the provisional settlement is announced, could result in material changes to this forecast. In the worst case it is still possible that further savings will be required for 2016/17. This unusually high level of material uncertainty presents difficult issues for planning the budget strategy, and it is hard to be more precise about the savings required in 2017/18 and 2018/19, other than to express them in a broad range as being from £40m to £55m.

1.8 This report therefore updates the position on the core estimates that drive the council's budget position, to enable Members to assess the approach to the business planning and budgeting cycle. It reminds Members of the budget proposals for 2016/17 and 2017/18 that were previously agreed at the Council meeting of 2 March 2015.

1.9 It also presents the results of a review of council reserves that were previously managed by individual departments, and proposes a more corporate approach to controlling these, in order to manage risks better and to create the potential for investment in one-off projects and interventions that will deliver key corporate objectives and reduce long-term ongoing costs.

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 Overall funding update 2016/17 to 2019/20

3.1 Following the general election, announcements in the July budget have provided some indications as to future funding levels for the public sector and, by inference, local government. All the information in this section must be heavily caveated, because the data released is so incomplete, but it nonetheless seeks to present the best available summary of the likely funding position.

3.2 The government committed in the July budget to finding £37bn of savings to achieve a surplus by 2019/20 and identified areas of priority spending including:

- Increasing NHS funding in England by £10bn in real terms by 2021;
- Increasing the MoD budget by 0.5% a year in real terms;
- Spending 0.7% of Gross National Income on Official Development Assistance; and
- Protecting per-pupil funding for schools, including pupil premium rates.

3.3 The Spending Review 2015 will confirm how the government will invest in priority spending and deliver the remaining £20bn of savings not already announced in the Summer Budget. To analyse the probable impact of this the remainder of this section sets out the sources of local government finance and the way in which they may be affected.

3.4 The principal sources of local government financing are summarised in Table One, below, set out from those that can least be influenced locally to those over which local councils have more control.

Table One: Sources of local government finance for Brent, as forecast March 2015
Local government financing will increasingly be determined locally, with RSG previously forecast to fall by 46% over the period

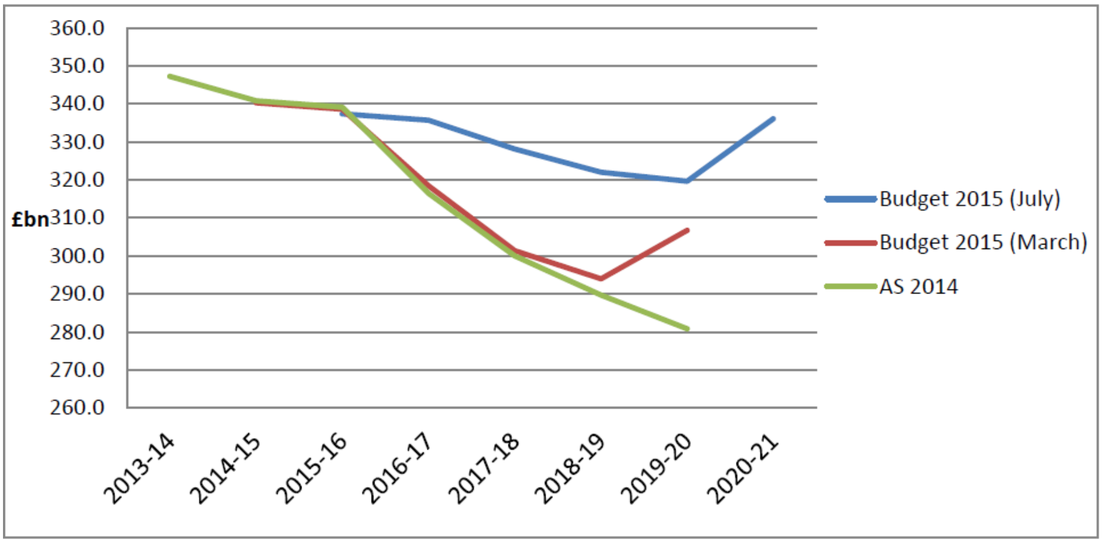
Funding source	Funding assumed by year in March 2015			Comments
	2016/17	2017/18	2018/19	
	£m	£m	£m	
RSG	55.0	41.8	29.8	Determined by central government.
BRTU	49.7	52.5	54.5	Previously indexed to inflation until 2019/20, but this could in principle be changed by government
NDR	38.0	39.4	41.1	Linked to local RV of businesses, hence the council gets (some of) the benefit in growth in the tax base, but cannot change the tax rate
Council tax	88.5	89.5	90.4	The council gets the benefit of the growth in the tax base and can also increase the tax rate by (usually) no more than 2% without a referendum
NHB	6.1	6.0	5.2	Grant from government determined by the level of house building and properties brought back into occupation
Total	**237.3**	**229.2**	**221.0**	

3.5 It is difficult to link these figures directly to the July Budget announcement of savings of between 25 and 40% for unprotected departments. (Unprotected departments are, essentially, all those except on the NHS, schools, international development and, since July, defence). On the narrowest measure the council has already adopted a prudent assumption of a 46% reduction in RSG in the period to 2018/19, which was based on a funding model provided by London Councils at that time. This provides a degree of comfort against some of the worst case scenarios that have been discussed nationally, but there are a number of complications.

3.6 It is the RSG figure that can be updated following the July budget. In addition, this report also proposes other technical adjustments to some of the other figures based on more up to date information, about likely house building numbers, for example.

3.7 Chart One, below, shows the published government “Resource Departmental Expenditure Limits” (RDELs, or cash limits as they would be termed in local government), comparing the autumn statement figures to those at March 2015 and again at the July 2015 budget.

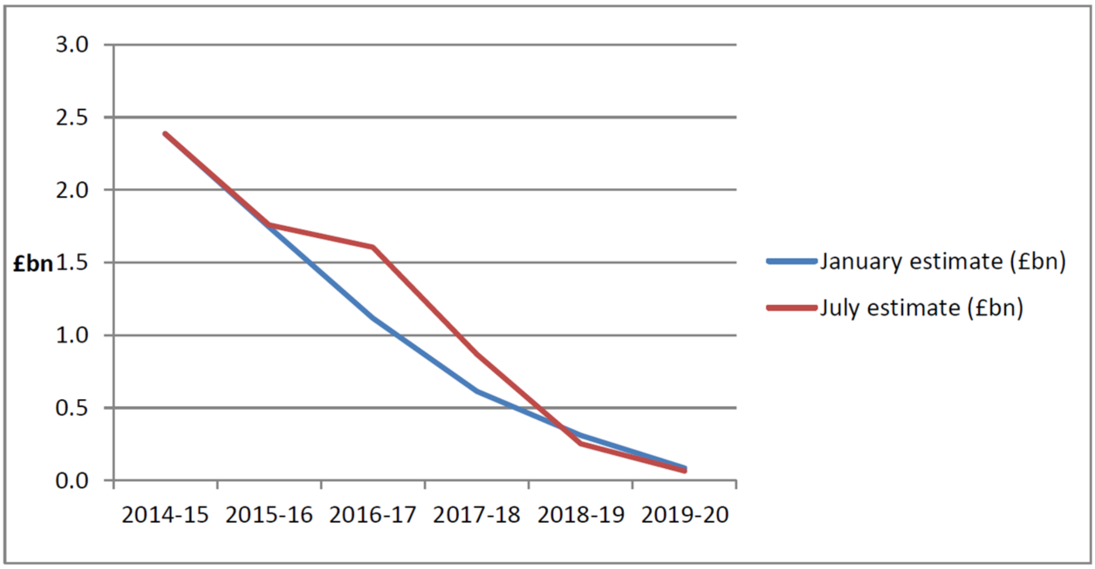
Chart One: Government RDELs 2013/14 2015/16 (actuals) and 2016/17 to 2020/21 (estimates)
The national estimates are materially higher than when the council set its last budget, reflecting improved government assumptions of economic growth and other changes



3.8 Of course, these are national figures. The effect of ring-fencing of the NHS, schools, international development and, additionally since July, defence, means that these increased spending assumptions still translate into sharp reductions of between 25 and 40% for unprotected government departments such as DCLH, from which local government is funded.

3.9 Chart Two produced by London Councils, shows their estimates of RSG in London, comparing the position as was estimated when the 2015/16 budget and council tax was set in March 2015 against that disclosed in July 2015 in the national budget.

Chart Two: London Councils' estimates of RSG in London 2016/17 to 2019/20
Reductions in 2016/17 may be less severe than previously anticipated, but the overall reductions over the lifetime of the Parliament are in line with or more severe than previous forecasts



3.10 Using the data above it is possible to update Brent's RSG forecasts, and set out in Table Two, below.

Table Two: Revised RSG forecasts

The position is likely to be more favourable than previously assumed.

	Estimated RSG			
	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**
As at March 2015	55.0	41.8	29.8	*
As at July 2015 (London Councils)	57.3	44.7	32.1	19.6
As at July 2015 (LGA)	61.4	46.5	33.4	26.4
Core forecast (average of LGA and LC)	59.4	45.6	32.8	23.0
Improvement in forecast	**4.4**	**3.8**	**3.0**	**n/a**

* This figure was not previously published

3.11 The LGA forecast is based on a published funding model to individual boroughs. The London Councils model is based on the estimated total funding for London, and at this stage officers have assumed that the distribution of this will be less favourable than in previous years, due to the additional ring-fencing announced. The LGA model is therefore more likely to be accurate, but at this stage the core forecast reflects the average of the two in order to be prudent.

3.12 On this basis it would be reasonable to revise the RSG forecasts upwards as set out above. However, Members must note that the impact of distributional and other changes could yet lead to subsequent material revisions to these forecasts, and that the worst case models that have been prepared by some commentators show RSG in London falling to nil by the end of the decade, or at best very early in the 2020s.

3.13 The other elements of funding set out in Table One have also been reviewed. Although there was little information in the July budget from which these estimates can be updated the tax base information and other key components have been reviewed as part of the ordinary process of updating the budget model. These are set out in sequence, below.

3.14 Business rates top up, or BRTU, was created as one of the funding sources for local authorities on establishment of the new system of partial devolution of NDR to local authorities. Previously each council had paid its tax take from business rates into a national pool, and received means tested RSG allocations out of that pool. The BRTU system was introduced to ensure that, on day one of the new system, there were no winners or losers. Councils like Brent received top up funding, such that their initial figure for locally retained business rates and BRTU was equal to the previous element of RSG funded from the NDR pool. Westminster, for example and by contrast, paid a supplement into the pool to reach the same position.

3.15 The government guarantee was that this would continue to be indexed to RPI inflation until 2020. Whilst government is not bound by this officers have continued to assume that this will be honoured. In practice to date it has been, albeit by a complex mechanism of "section 31" grants. Essentially, government has limited the actual increase in BRTU to 2%, even when RPI has been higher, as it usually has been since the introduction of the system, and then paid the balance to councils as a "section 31" grant (essentially, a discretionary grant, non ring-fenced). However, all the core economic forecasts from institutions such as the OBR and Bank of England are that inflation will be lower and for longer. The cumulative impact of this will be to worsen the amounts of BRTU funding received over the planning period 2016/17 to 2018/19.

Table Three: BRTU 2016/17 to 2018/19

The core estimates are lower than previously adopted due to lower inflation forecasts

	Estimated BRTU		
	2016/17	**2017/18**	**2018/19**
	£m	**£m**	**£m**
As at March 15	49.7	52.5	54.5
As at October 15	48.8	49.8	50.8
(Worsening) in forecast	**(0.9)**	**(2.7)**	**(3.7)**

3.15 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

3.16 Based on the latest projections it is estimated that locally retained business rates will increase in 2016/17 by 1% for inflation and about 1.5% for increases in rateable value. However, March 2015 saw a surge in appeals lodged to meet the deadline for the current valuation period.

3.17 The Valuation Office, in July 2014, undertook to clear 95% of the backlog in appeals. They recently wrote to the council claiming that they had hit 94%, just short of the target. However, they appear to have achieved this by dealing only with backlog cases, with the effect that the actual number of properties with an outstanding appeal is now approximately 1,707 (correct as at 22 September), more than at the time that they undertook to clear the backlog.

3.18 As a result there are outstanding valuation appeals against properties with an aggregate RV of £98m (these properties generate about £49m in NDR, excluding the effects of any reliefs and exemptions), out of total RV of £280m. Since April 2014, appeals against property valuations of about £50m have been determined, and resulted in average reductions of 3.65%. Assuming that the impact of appeals remains at about 4% officers have therefore assumed that income will fall by some £2m as a result of appeals. Brent's 30% share of this is £0.6m. In addition it would be prudent to allow for £0.4m for Brent's share of any backdated revaluations. Clearly, if this estimate turns out to be incorrect then the financing assumptions will need to be amended.

3.19 However, this will be partially offset by the uprating for inflation, which is assumed to reach 2% in 2017/18 and 2018/19. The total RV will also grow (separate from the impact of appeals) as new businesses are attracted into the borough. The effect of this is assumed to be 1% per year, as set out in Table Four, below.

Table Four: NDR 2016/17 to 2018/19
The impact of the increased appeals will decrease the NDR forecasts from those previously adopted, assuming that roughly the same proportion of appeals continue to be successful

	Estimated business rates		
	2016/17	**2017/18**	**2018/19**
	£m	**£m**	**£m**
Forecast as at March 15	38.0	39.4	41.1
Revised forecast b/f, before adjustments	n/a	37.3	38.5
Adjustment to RPI inflation assumptions	(0.6)	0.0	0.0
Add, impact of inflation	0.4	0.7	0.7
Less, assumed loss on appeal and revaluation provision	(1.0)	0.0	0.0
Add, gross valuation growth	0.5	0.5	0.4
Revised forecast	**37.3**	**38.5**	**39.6**
Gain / (loss) on previous forecast	**(0.7)**	**(0.9)**	**(1.5)**

3.20 Council tax is determined locally, subject to a referendum limit announced annually by DCLG. Usually this has limited council tax increases to 2% p.a. or below, unless a higher figure is supported in a local referendum. However, it is possible that a different limit will be announced later this year.

3.21 The council tax levied by Brent Council has not been increased for six years. However, the total levels of council tax income generated have risen with the tax base, driven by:

- Increases in the number of properties within the borough;
- Decreases in the value of council tax discounts awarded, particularly in respect of the council tax support scheme; and
- Improvements in collection (although this trend has reversed in the last two years).

3.22 Since the introduction of the council tax support scheme local councils' tax income has been positively correlated with changes in employment levels. In other words, the cost of paying council tax benefit used to sit nationally. This has been partially localised through the CTS, and so as unemployment falls (or rises) the cost to the council of the CTS falls (rises). Increases in employment in recent years have outstripped expectations, leading to one-off surpluses on the collection fund. Recent economic data points to a levelling off of the fall in unemployment, but if the OBR forecasts for growth prove accurate then the medium-term trend may still be for further reductions.

3.23 The updated estimated council tax income for 2016/17 now takes account of a significant improvement in the level of discounts for the council tax support scheme as well as an increase in the number of new properties in 2015/16. In addition, there is greater confidence in the accelerated house building estimates provided, enabling the council to build these into its forecasts for 2016/17 and future years at this stage. Furthermore, the estimates also take account of increasing the long-term council tax collection rate by 0.5% to 97%. Table Five, below, reflects the impact of adopting these estimates. At this stage, no adjustments have been made for any future rise in council tax, pending policy decisions by Members. As previously advised, an increase in the council tax of 1% is worth about £0.9m p.a.

Table Five: Council tax income
Increases in the pace of house building and falls in the local unemployment rate, if sustained, will drive the council tax base significantly higher than previously forecast

	Estimated council tax take		
	2016/17	**2017/18**	**2018/19**
	£m	**£m**	**£m**
Forecast as at March 15	88.5	89.5	90.4
Revised forecast	92.4	93.6	94.8
Gain / (loss) on previous forecast	**3.9**	**4.1**	**4.4**

3.24 The council will make its formal determination on the collection fund surplus later in the budget cycle, as required by legislation. Collection performance to date in 2015/16 has been below target, which will impact on any surplus (and ultimately on the tax base, which is in part determined by assumptions about how much of the total amount billed will eventually be collected). If the planned actions to address this are successful, including a review of arrears and dormant accounts, then there may be scope to build in significant additional contributions from the collection fund into the future budget strategy, ideally through long-term collection improvement leading to increases in the council tax base.

3.25 During 2015/16 the government top-sliced £70m of New Homes Bonus funding from London boroughs to provide a pool of resources for use on a programme of projects across London agreed by the Local Enterprise Panel. Brent's contribution has been £2m.

3.26 The latest projection for New Homes Bonus (NHB) funding for the Council, reflecting the latest housing projections and assuming the top-slice will continue into future years, is that the Council is estimated to have available £8.7m in 2016/17 and £9.3m in both 2017/18 and 2018/19. However, it would not be prudent at this stage to plan the long-term budget on this basis, as this would build in a financing gap in 2019/20 onwards unless house building continues to accelerate at its current rate for several years. If it did then the risk that government would review the funding mechanism would materially increase. At this stage, therefore, a contingency has been built into the financing estimates, which will be reviewed later in the process.

3.27 NHB is calculated based on building over the last six years. The actual amount attributable to each of the last six years varies significantly, from below £1m to £3.6m, averaging at around £1.7m each year. The table overleaf shows this calculation and its effect.

Table Six: New Homes Bonus(NHB)
The estimated amount payable over the period to 2018/19 can be increased at this stage in the planning cycle

	Estimated NHB		
	2016/17	2017/18	2018/19
	£m	£m	£m
Amount payable in respect of 2011/12	1.1	n/a	n/a
Amount payable in respect of 2012/13	1.7	1.7	n/a
Amount payable in respect of 2013/14	2.5	2.5	2.5
Amount payable in respect of 2014/15	0.9	0.9	0.9
Amount payable in respect of 2015/16	0.9	0.9	0.9
Amount payable in respect of 2016/17	3.6	3.6	3.6
Amount payable in respect of 2017/18	n/a	1.7	1.7
Amount payable in respect of 2018/19	n/a	n/a	1.7
Less LEP top slice	(2.0)	(2.0)	(2.0)
Total payable for year	8.7	9.3	9.3
Contingency as described above	(1.7)	(2.3)	(2.3)
Estimate	7.0	7.0	7.0
Previous estimate	6.1	6.0	5.2
Improvement on previous forecast	**0.9**	**1.0**	**1.8**

3.28 Specific government grants may also be reduced in future years which will affect our overall funding. Currently government are consulting on the what basis to use to reduce the public health grant and it seems likely that Brent will see a reduction in its funding of around £1.3m. In addition there have been delays to the implementation of the Care Bill which means some or all of the £1.1m funding received in 2015/16 may not continue into future years.

3.29 The impact of the funding changes is summarised in Table Seven, below.

Table Seven: Overall Funding Projections, aggregating tables two to six
Considering funding changes only the position is likely to improve materially

	Estimated total funding		
	2016/17	2017/18	2018/19
	£m	£m	£m
Forecast as at March 15 (table one)	**237.3**	**229.2**	**221.0**
RSG (table two)	4.4	3.8	3.0
BRTU (table three)	(0.9)	(2.7)	(3.7)
NDR (table four)	(0.7)	(0.9)	(1.5)
Council tax base (table five)	3.9	4.1	4.4
NHB (table six)	0.9	1.0	1.8
Gain / (loss) on previous forecast	**7.6**	**5.3**	**4.0**
Revised Forecast	**244.9**	**234.5**	**225.0**

3.30 This section shows that the council's prudent approach to financial planning has helped to provide some mitigation against funding cuts. By planning for a worst-case scenario it is now more likely than not that there will be some improvement on the financing side of the budgeting model against the position previously assumed. Taken on its own this would lead to a reduction in the assumed savings required for future years, but other spending pressures will need to be taken into account.

3.31 It will be possible to update this position with some precision and certainty after the local government settlement, most probably at the January 2016 Cabinet meeting, although updated informal estimates should be available following the spending review.

3.32 However, it is important to stress that the outlook beyond 2018/19 is more likely to be worse than previously assumed, based on the data released in the July budget, and so the long-term funding outlook remains extremely challenging. It is also important to look at spending pressures before the overall estimate of the savings target can be updated, to which this report now turns.

4.0 Spending pressures

Technical assumptions which can be quantified with some precision

4.1 The Council has inflation and similar provisions built into its financial planning to cover the costs of pay awards, changes in national insurance, increases in pension fund contribution rates and non staff inflation. The assumptions adopted in March 2015 were as follows:

- Pay Awards 1% 2016-17 to 2018/19;
- Increases in national insurance costs in April 2016, as taxation changes increase the cost of employment;
- Increases in pension fund contribution rates 0.6% 2016/17, 1% in 2017/18 and 2018/19 reflecting the potential impact of the three year actuarial review;
- General non staff inflation 1% 2016-17 to 2018/19.

4.2 The assumptions for pay and national insurance continue to look as well founded now as they were in March 2015 and there is no need to adjust these. However, on pensions, although the pension fund adopted a more defensive position in anticipation of the recent slide in global stock markets the overall investment outlook is weaker than in March, and the consensus Bank of England forecasts are that discount rates will remain lower for longer. This combination of factors will tend to drive fund valuations lower and liability assumptions higher, and it will be prudent at this stage to allocate further cash increases of £1m p.a. over the three-year period to 2018/19 to mitigate against the probable impact of this on the next actuarial review, which will be based as at March 2016.

4.3 The OBR forecasts for RPI inflation in March were for CPI to rise to 1.2% in 2016/17, and thereafter more steadily to 1.8% by 2017/18. RPI usually tracks at between one and 1.5% higher than CPI, although unusually it is current only 0.7%, higher than the nil CPI rate.

4.4 The council's previous assumptions on pay increases have been confirmed, as government has announced funding at this level, as well as an expectation that the increase would not be paid automatically across all staff. The council's assumptions on non pay inflation were, however, ambitious. Although officers negotiate funding settlements with contractors, rather than automatically paying inflation increments, the reality is that this position is becoming more difficult to sustain. Inflation awards have not been made on most adult social care contracts for some years, and a number of other contracts are linked to indices other than standard inflation measures. Construction costs, for example, have been rising significantly faster than general inflation. Whilst this is the right financial management strategy, it would be risky to assume for budget planning purposes that it can be delivered, and the prudent course would be to consider at this stage the risk that another £1.0 m p.a. may become payable.

Other assumptions which are harder to quantify

4.5 Outside of these technical assumptions (which will need to be revised over the budget planning process) the council will also need to consider the financial risks that it faces, and the pressures caused by changing demography and legislation. For many of these it will not yet be possible to quantify them with precision, as officers will depend on, for example, future government announcements, as will likely be set out in the Spending Review.

4.6 On risk, the council's budget is currently set on the basis that all agreed savings will be delivered on time and in full. This is of course the managerial focus, and the council has a good record on delivering close to 100% of its savings. However, for the purposes of financial planning it would be prudent to recognise the risk that this may not be achieved. Not only is this recognised as standard practice in financial planning, but it would also reflect the fact that as budgets are squeezed further it will become progressively more difficult to deliver savings against them. As an illustration of scale, a 5% contingency at this point would build £1m onto the cost pressures to be considered in setting the budget.

4.7 The council needs to understand demographics closely, as a means of understanding the population that it serves and the costs of so doing. The budget set for 2016/17 in March 2015 included £1.1m for these demographic pressures. All the indications are that as the population continues to grow these pressures will continue to be felt in the later years 2017/18 and beyond as well. In addition, as the composition of the population changes different services will be affected in different ways. As one illustration of this, the under 18 population has grown by almost 10% in the last five years, and the GLA population forecasts show that this rate of increase is largely expected to continue, levelling off only somewhat towards 2019/20.

4.8 This increase will inevitably put pressure on social care and early help budgets, as well as some of the ancillary costs located in other departments, such as legal services. Similar pressures exist across the range of council services, such as for adult care services and refuse collection and disposal and many others. For several years the council has tried to limit the financial allocations to services to reflect these pressures. This is clearly the right financial management policy, but equally clearly the financial planning will need to consider the service pressure caused by meeting the needs of a growing population.

4.9 Equally, the council will need to consider the cost of supporting residents with no recourse to public funds, which is a significant cost pressure in the current year, and it is far from clear what long-term government funding, if any, will be made available to local authorities such as Brent which are seeking to provide humanitarian support to Syrian refugees.

4.10 The estimates for the cost of this will need to be refined over the budget planning process. Clearly budgets will only be allocated if and when it has been demonstrated that all reasonable attempts to contain the impact of demographic pressure, such as by negotiations with contractors, have been shown to be unsuccessful. However, simply as an illustration of the scale of such pressures, the core GLA forecast for the increase in the under 18 population is close to 7% over the next five years. If this translated directly into the costs of children's social care and early help services the additional cost over that period of time would be around £3m.

4.11 This does not propose allocating such a budget at this period of time, but illustrates effectively the scale of the financial challenges posed by meeting the needs of a rapidly growing population.

4.12 As part of the 2015/16 budget process spending pressures of £3.8m for legislative changes in respect of parking and the introduction of the Care Act were agreed, as was an allocation of £1.2m for demographic pressures in Adults Social care and £2.8m for other identified and agreed pressures.

4.13 The delay in implementing the main provisions of the Care Act means that this pressure will also be delayed, but it would be sensible to assume that government funding for this will also be withdrawn or reduced, and so the net impact of this on the financial planning position should be neutral. At this stage it would also be sensible to assume that the full estimated additional costs of the changes to legislation around CCTV enforcement for parking will be required to be met from this contingency established by the council. If it is possible to fund the service from a lower figure then the balance will be returned, in effect as an additional saving. The other specific pressures have been recognised and built into base budgets.

4.14 However, as the examples above illustrate, the demographic pressures faced over the period 2016/17 and beyond are potentially substantial. The current estimated cost of meeting these was set at £1.1m p.a. and the current expectation is that this figure is more likely than not to have to be revised upwards in the budgeting process.

Legislative changes

4.14 The July budget also signalled a number of new legislative changes. There will again be impacts on many council services as a result, but at this stage probably the areas most likely to be significant are those set out below.

4.15 On welfare reform the government will clearly:

- Lower the overall Household Benefit Cap;
- Limit back dating in Housing Benefit claims to four weeks; and
- Restrict housing benefit entitlement for young people.

4.16 The immediate financial impact of these changes will be on claimants rather than the council. However, all the experience to date has clearly shown that this increases the pressure on council services to such people, most particularly in housing and temporary accommodation costs.

4.17 The government has also made a policy commitment to extending free child care to 30 hours each week for three and four year olds from September 2017. The funding details for this are not yet clear, but if they fell to the general fund they would be significant.

4.18 The government also announced a national living wage to be introduced from April 2016. The council's policy is already to work towards paying the London Living Wage. All staff receive at least the LLW, and as contracts come up for renewal the impact of paying the LLW is considered. If nothing else happened, this would have a somewhat inflationary impact on the council's budgets, as the LLW has tended to increase annually by more than the rate of inflation. The impact of other changes to the tax credit system may also be highly significant in this area, with some forecasts of the LLW needing to be increased to £11.65 to offset this, from its current rate of £9.15 per hour, an increase of over 25%. We do not yet know what the new rate will be, or whether any funding will be allocated to offset this, particularly given the interplay between LLW and the newly announced and higher level for the national living wage.

4.19 As set out in the introduction to this report, there are more and greater uncertainties in the financial planning than would normally be the case at this point in the budget cycle. Until at least the major uncertainties have been resolved it would be sensible and prudent to plan to identify more savings for 2017/18 and beyond than may actually be required, to ensure that the council has well developed options available to it if some of the worst-case estimates come to pass.

4.20 The improvements in the funding position set out in Table Seven (paragraph 3.29) need to be seen in this light. Those improvements are only medium-term, probably falling away by 2019/20, and the underlying estimates that drive them may yet materially worsen following the spending review. Even if the estimates turn out broadly accurate there are undoubted additional spending pressures on the general fund, driven by technical factors such as inflation, demography and legislative change which are likely to be more significant than assumed when the budget was set in March 2015.

4.21 The consequence of this level of uncertainty is that it is no longer practical to seek to express a precise target for savings in the period 2017/18 to 2018/19. The original informal estimate of £50m may yet prove to be accurate, but as the anticipated pace of the funding reductions has been slowed as the government pushed back its target for achieving a national budget surplus to 2019/20 it is perhaps more likely than not that this could be reduced in the short-term.

4.22 At this stage in the planning cycle it would therefore be appropriate to plan for savings in a broad range of between £40m and £55m over the period 2017/18 and 2018/19. Critically, if this assumption comes in towards the lower end of this range, it is likely to mean that further and more severe reductions in 2019/20 would be required to continue to achieve a balanced budget.

5.0 Other matters

5.1 As set out in the introduction, possibly the most significant financial announcement in the July budget was the change in rent policy for social housing and associated matters. In summary:

- Social rents will reduce by 1% p.a. for four years from April 2016;
- Tenants with incomes about £40,000 (in London) will be required to pay a market not a social rent, the financial benefit of which will accrue to national not local government; and
- 'High value' properties will need to be disposed of when they become vacant, to fund the new RTB in housing associations, but the mechanics of how this will operate are as yet not published.

5.2 The first point alone is expected to cost London housing authorities over £800m by 2020. In practice for Brent this would mean that the resources available to fund the capital investment programme in housing would be significantly reduced, on current forecasts a gap in the medium-term resources of around £25m has been identified solely as a result of this change in policy. Costs within the HRA would have to be very substantially cut to make any significant offset against this gap, and some commentators have gone so far as to say that the change would make local authorities' housing revenue accounts unsustainable in the medium-term.

5.3 As with so much of the current position, the details of how these changes will be implemented are very unclear, and the proposed housing bill is yet to be published. Without doubt, there will be significant cost pressures on the HRA, impacting on the council's ability to invest in new stock, and imaginative policy options will need to be considered. Until the draft housing bill is published it is difficult to be more precise about the position.

5.4 For schools, the expectation is that funding will continue to be increased, in line with national policy announcements. Whilst there are clearly financial pressures on schools, and ever increasing expectations of them it remains the case that the Dedicated Schools' Grant, which funds them, is well funded compared to other council budgets. Officers will continue to work with schools to ensure that this is deployed to the greatest possible impact across the range of services needed to support educational and wider outcomes.

5.5 The capital programme will be updated later in the budget cycle. By taking a careful approach and limiting new unsupported borrowing over the last two years it will be possible to realise some reductions in the capital financing costs of the principal and interest on previous borrowing, generating a short-term saving for the general fund. This has not yet been quantified, and will depend on decisions about the long-term future of the capital programme from 2017/18 and beyond.

5.6 Increasingly the capital programme is determined by government grants, directed at specific purposes. Once the current agreed disposals have passed through the system, where they are for example supporting the South Kilburn development and other regeneration schemes, the council will need to confront difficult decisions about its future capital plans, balancing investment in the borough against the ongoing revenue cost of financing that.

5.6 As part of the process of managing the council’s finances a series of reserves are retained. The general reserve of £12m is set at a relatively low level for London, and it would not be prudent to operate on a significantly lower figure. The council also retains a series of earmarked reserves. These fall into several categories.

5.7 Some earmarked reserves are simply planned budgets not yet spent. This includes where capital receipts are received in advance of budgeted capital expenditure, whether from disposals or s106 contributions. The council is also required to set aside sums to cover the long-term financing costs of its PFI contracts, to ensure that these long-term commitments can be met, and makes general provisions through its insurance fund for those risks that it is more economic to self-insure against.

5.8 Departments also manage a number of reserves. These could be against specific risks or planned expenditure commitments. An interim review has shown that it would be more efficient to centralise the management of at least some of these reserves. This avoids excessive prudence in risk management and would enable the council to free up some resources to finance one-off investments that could in the longer-term be self-financing as they reduce service costs, or meet other one-off investment needs.

5.9 A full process for this will be set out later in the budget process.

6.0 Financial Implications

6.1 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.

6.2 The overall budget setting timetable for the 2016/17 is set out below:

Date	Activity
23/11/15	Full Council: First Reading debate
14/12/15	Cabinet: Collection Fund Surplus

25/01/16	General Purposes: Council Tax Base and Business Rates Estimate
08/02/16	Cabinet: Budget Proposals 2016/17
22/02/16	Full Council: Budget and Council Tax Setting

7.0 Legal Implications

7.1 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.

7.2 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.

7.3 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.

8.0 Diversity Implications

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

9.0 Staffing Implications

9.1 None directly as a result of this report.

10.0 Background Information

Report to Cabinet, 13 October 2014 – Budget Strategy and Financing Update
Report to Council, 3 March 2015 – Budget and Council Tax 2015/16

11.0 Contact Officer

11.1 Conrad Hall, Chief Finance Officer
conrad.hall@brent.gov.uk