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| | **Budget and Finance Overview and Scrutiny Committee**<br>20 July 2011<br><br>**Report from Director of Finance and Corporate Services** |
| | All Wards |
| **Budget Strategy 2012/13 to 2015/16** | |

**1.0 Introduction**

1.1 This report sets out the financial prospects for the Council for the next four years.

1.2 It is being submitted to the Executive on 18 July 2011 to seek approval for the overall budget strategy based on the One Council Programme and the delivery of the Borough Plan.

1.3 It is submitted to the Budget and Finance Overview and Scrutiny Committee for consideration.

**2.0 Recommendations (to the Executive)**

2.1 To note the latest forecast for the Council's revenue budget for 2012/13 to 2015/16 at Appendix A and the assumptions used to derive this.

2.2 To endorse the overall budget process set out in the report.

2.3 To note the proposed budget timetable.

**3.0 Baseline Position 2012/13 to 2014/15**

3.1 The Budget Report to Full Council on 28 February 2011 included a financial forecast as part of the Medium Term Financial Strategy, which included the following main assumptions:

3.2 <u>Spending assumptions</u>

- Service area budgets rolled forward at 2011/12 levels into future years;
- No allowance for pay inflation in 2012/13 other than 2% for staff earning less than £21k per annum and then 2% for all staff in future years;
- Inflation of 2% for prices in 2012/13 and future years;
- Additional contributions to meet the Pension Fund deficit with contributions of £1.7m (2012/13), £0.5m (2013/14) and £1.7m (2014/15);

- No savings assumptions built into service area baseline budgets;
- Provision for cost pressures in service area budgets of £6m per annum including identified growth for future years of £1,089k in 2012/13, £297k in 2013/14 and £297k in 2014/15. This provision was intended to meet ALL other costs arising from additional demand pressures, legislative or other regulatory changes which lead directly to additional costs to the council, and any on-going loss of income due to economic conditions or other factors.
- The medium term forecast for central items included:
  - *Debt charges (capital financing charges net of interest receipts)*: These were forecast to grow from £25.359 in 2011/12 to £26.563m in 2012/13, £27.603m in 2013/14 and £29.104m in 2014/15 as a result of capital programme commitments including the Civic Centre;
  - *Levies:* These were forecast to grow from £2.238 in 2011/12 to £3.089m in 2012/13, £3.986m in 2013/14 and £4.973m in 2014/15. The main reasons for this are the continuing increases in the real cost of waste disposal as the Landfill Tax escalator continues to rise by £8 per tonne per year, an allowance for higher waste tonnages than expected for the Pay as You Throw levy and an allowance for higher West London Waste Authority costs than expected . The impact of the Landfill Allowance Trading Scheme could also have a significant impact in later years;
  - *South Kilburn Development:* Funding from central items (to cover expenditure such as decant costs) for the South Kilburn Development is set at £900k in 2011/12, rising to £1.5m in subsequent years as the level of development increases;
  - *Freedom Pass/concessionary fares.* These have risen significantly over the last few years and currently stand at £13.767m. There are no indicative figures for later years but the current assumption is that prices will rise by 4% and there will be a 1.5% increase in usage. In addition because of the volatility of this budget in the past an additional contingency of £500k has been allowed for in 2012/13 to reflect any additional increases in transport costs. Therefore, Brent has budgeted for an additional £1.257m (2012/13), £826k (2013/14) and £872k (2014/15).
  - *New Homes Bonus/Regeneration.* For 2011/12 the Council is matching the income received for the New Homes Bonus with additional spend on regeneration because of the linkages between the two areas. It was assumed that the level of income would be £1.25m per annum to 2014/15.
  - *Redundancy and Restructuring Costs.* A budget of £6.354m has been set aside for 2011/12. These costs are assumed to remain constant over the medium term but their mix is likely to change with higher redundancy and severance costs in the earlier years being replaced with the actuarial strain costs of meeting the costs of early retirements which are spread over three years.

3.3 Resource assumptions

- Formula Grant of £165.911m in 2011/12 falling by £13.066m to £152.845m in 2012/13 (based on the settlement figure), to £151.011m in 2013/14 and to £139.383m in 2014/15 (based on national assumptions from the Spending review). Since the budget report, Government has indicated the complete replacement of the Formula Grant system from April 2013 (see below);
- Other unallocated grants to remain at 2012/13 levels;
- Council tax base increase of 0.25% per annum in line with previous forecasts;
- Council tax collection of 97.5% in each year;
- Council tax increases ranging from 0% to 3.5% per annum;
- Income from fees & charges assumed to be in line with the general price inflation assumption of 2%.

3.4 Depending on assumptions on Council Tax increases over the period, the assumptions above produced a gap to be bridged for the period 2012/13 to 2014/15 between £57.3m and £68.6m as follows:

**Table 1: Estimated Budget Gap at 28 February 2011**

| | **2012/13 £m** | **2013/14 £m** | **2014/15 £m** |
|---|---|---|---|
| **Net savings required where council tax rise is**: | | | |
| - 0% per annum | 23.6 | 16.6 | 28.4 |
| Cumulative | 23.6 | 40.2 | **68.6** |
| - 2.5% per annum | 21.0 | 14.0 | 25.6 |
| Cumulative | 21.0 | 35.0 | 60.6 |
| - 3.5% per annum | 20.0 | 12.9 | 24.4 |
| Cumulative | 20.0 | 32.9 | **57.3** |

3.5 Funding of Local Government from 2013/14

On 17 March 2011 the Government launched the Local Government Resource Review to consider the way that formula grant and business rates are distributed to local authorities. The first phase of the review is due to report in July 2011 and covers:

a. the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;

b. the extent to which these proposals can set local authorities free from dependency on central funding;

c. considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;

d. reviewing the scope for greater transparency and localisation of the equalisation process;

e. the position of councils whose business rate yield would be significantly higher than their current spending;

f. how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;

g. how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;

h. how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;

i. examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers; and

j. the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government's other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

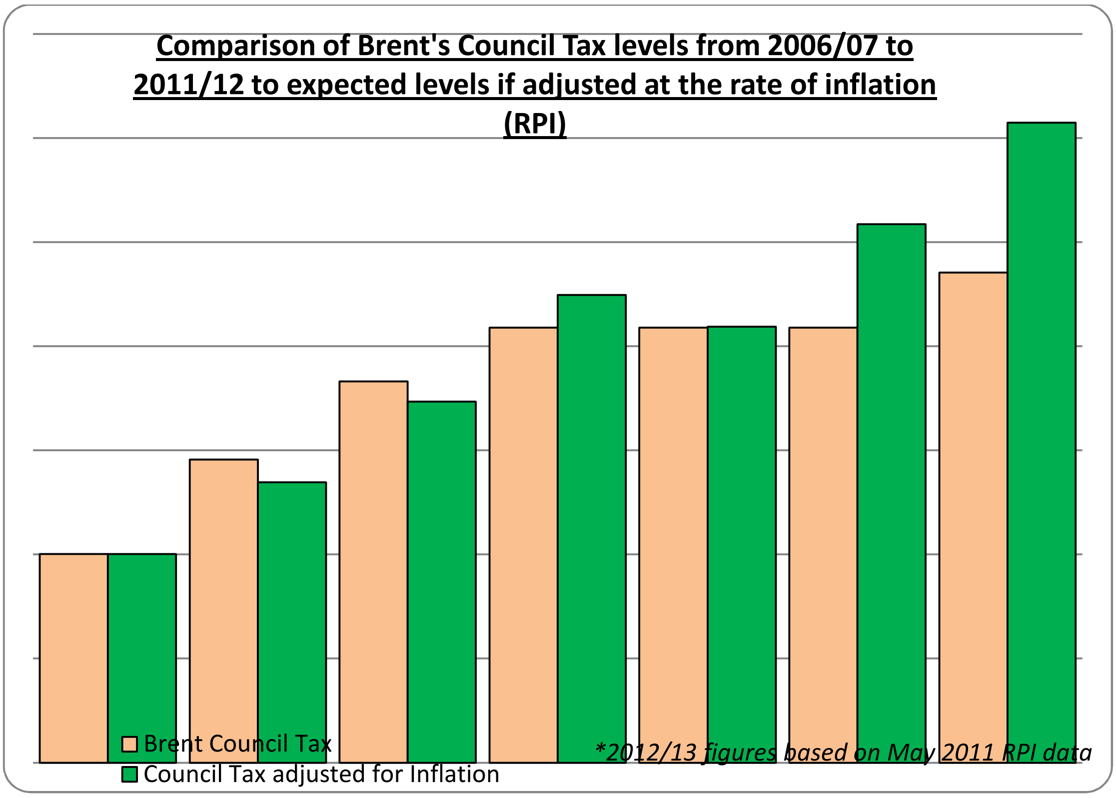
The current intention is that any new arrangements will be in place for the 2013/14 financial year. Until the outcome of the review is known there will be considerable uncertainty regarding resources for the Council after 2012/13.

3.6 Council Tax

The Localism Bill provides for the introduction of referendums to veto excessive council tax increases. Each year the Secretary of State will determine a set of principles which will be used to decide whether council tax increases are excessive. Where an authority sets a budget that is deemed excessive it must make arrangements to hold a referendum by the first Thursday in May and also prepare an alternative budget. If the proposed excessive council tax increase is rejected the alternative budget will have effect.

At this stage there is no indication of the level of council tax increase that would be deemed excessive for 2012/13 or later years.

The chart below compares Brent’s Council Tax Band D from 2006/07 to 2012/13 with the levels had Council Tax been increased by inflation each year. The Council Tax increase of 2.5% for 2012/13 is only included for illustrative purposes. The graph shows show how initially council tax increases were higher than inflation but that in recent years the cumulative effect of inflation has outstripped council tax increases.




3.7 Forecast General Fund Position 2012/13 to 2015/16

Appendix A sets out revised financial forecasts based on the latest available information. The following changed assumptions from the February forecast are included:

- Projections extended to 2015/16;
- Allowance for growth reduced from £6m per annum to £5m – pressures above this will need to be absorbed within service area budgets;
- Service area savings for 2012/13 relate fully to decisions taken as part of the 2011/12 budget process;
- inclusion of the latest savings forecasts relating to One Council programme;
- assumed stepped increase in employer's national insurance costs;
- increases in the rate of carbon tax over the medium term;
- increased forecast of resources from the New Homes Bonus
- Additional £2.239m added to reserves to take total to £12m.

3.8 On the above basis the overall reductions in net expenditure required to produce a balanced budget are set out in the table below.

**Table 2: Updated Budget Gap**

| | **2012/13 £m** | **2013/14 £m** | **2014/15 £m** | **2015/16 £m** |
|---|---|---|---|---|
| **Net additional savings required where council tax rise is**: | | | | |
| - 0% per annum | 10.9 | 5.5 | 25.2 | 25.9 |
| Cumulative | 10.9 | 16.4 | 41.6 | 67.5 |
| - 2.5% per annum | 8.3 | 2.9 | 22.4 | 23.1 |
| Cumulative | 8.3 | 11.2 | 33.6 | 56.7 |
| - 3.5% per annum | 7.3 | 1.7 | 21.3 | 21.8 |
| Cumulative | 7.3 | 9.0 | 30.3 | 52.1 |

3.9 Capital Programme

Appendix B sets out current Capital Programme assumptions and the consequential impact on borrowing costs have been factored into the main financial forecasts.

Key work for the next two years includes the building of the Civic Centre with an estimated borrowing requirement of £53.868m and the schools programme of £24.522m over the two years, which is externally funded via Central Government Grant.

Clearly capital money is not free – it has a revenue impact and hence the strategy for future years will be to support programmes which are externally funded and those which deliver revenue savings equal to or greater than the debt costs. Conversely schemes requiring unsupported borrowing and which have net debt costs must be reduced to a minimum or eliminated.

3.10 Housing Revenue Account (HRA)

The HRA finance system will change from 1 April 2012 with the removal of the national subsidy scheme. Within Brent this will mean a one-off payment from the Government in return for no longer receiving annual subsidy payments.

The final details are still to be confirmed but this will have a significant impact on the long-term financial health of the HRA.

If the Council were to support the ‘Optimised Almo’ proposals contained in the recent Navigant review, this would improve the HRA position and may well have a beneficial impact on the General Fund

## 4.0 Proposed Budget Strategy and the One Council Programme

4.1 The Council's budgeting process has changed significantly to meet the challenges of delivering services with reducing resources. The One Council programme, along with a fundamental review of service provision across the Council have been the key drivers for delivering the savings required.

4.2 Over the next few years the delivery of the savings from the One Council programme will continue to be a vital ingredient of the Council's strategy of protecting front-line services whilst cutting costs.

4.3 In addition there are a number of emerging national and local issues for the Council to address over the next four years.

4.4 Appendix C shows emerging budget themes across the services of the Council. It is proposed that these will form the broad basis for budget reviews along with other areas identified by Directors and their DMTs:

4.5 In addition, other areas of focus will include:

- The impact of WLA and pan-London initiatives;
- Areas no longer funded by specific grants (e.g. Sure Start) where it can be assumed that no service will be continued by the Council unless a business case can be made to justify their continuance along with identified funding;
- A full review of grants to voluntary organisations
- Benchmarking and review of all corporate functions and a pegging of costs within reasonable target ranges

4.6 <u>Other Measures</u>

Apart from the main projects within the One Council Programme there are a number of other actions that will need to be undertaken to help deliver a balanced and robust budget over the medium term.

(i) Ensuring that each Service Area does not overspend its current year's budget and that where potential overspends are identified, virements to cover this are identified at the time.

(ii) Ensuring that One Council savings are delivered as forecast and again, where slippage occurs, identifying compensating savings;

(iii) All central items to be robustly controlled.

(iv) *"Inescapable Growth"* to be minimised and funded from within existing budgets if at all possible.

(v) Borrowing within the capital programme limited as a maximum to currently assumed levels and with priority given to funding from other sources.

(vi) Engage in the Local Government Resource Review and lobby on areas affecting resources available to Brent

(vii) Consider various options around levels of Council Tax.

## 5.0 Timetable

5.1 Appendix D sets out a draft outline timetable for the 2012/13 budget.

## 6.0 Financial Implications

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

## 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 section 32 of 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 (the Director of Finance and Corporate Resources) and the Monitoring Officer (the Borough Solicitor). 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 section 106 of 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

10.1 Report to Full Council, 28 February 2011 – 2011/12 Budget and Council Tax.

## 11.0 Contact Officers

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