



Council
26 February 2018

Report from the Chief Finance Officer

Budget and Council Tax 2018/19

Wards Affected:	ALL
Key or Non-Key Decision:	KEY
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
No. of Appendices:	10
Background Papers:	▪
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer

1.0 Purpose of the Report

- 1.1 The purpose of this report is to set out the Council's budget proposals for 2018/19 and to update the medium-term budget outlook. It also sets out the results of the consultation and scrutiny processes.
- 1.2 Members are reminded that at the Council meeting of February 2017 a series of savings proposals were agreed to take effect in 2018/19 which, on the financing assumptions at that time, were sufficient to balance the budget in 2018/19. Update reports have been brought to Cabinet throughout the year, most recently in October and December 2017. Although the provisional local government finance settlement, announced just before Christmas, contained some unexpected changes (discussed below) the position remains that a balanced budget for 2018/19 can be agreed by reconfirming those savings proposals accepted by Council in February 2017: no new savings proposals are introduced by way of this report.
- 1.3 Brent has delivered savings of £150m since 2010, and it is clear that over the medium-term into 2019/20 and beyond further savings will be required. The lack of clarity about the future of local government financing (discussed more fully in section three of this report) makes it hard to be precise about future financial targets, but the working assumption is that further savings of around £30m will need to be identified for those two years.
- 1.4 Brent, like most well-run local authorities, seeks to avoid making substantial new proposals in the last budget of any Administration, as it will be for whatever

councillors are elected in May 2018 to determine longer-term financial policy. Therefore, no new budget proposals for 2019/20 and beyond are set out by way of this report.

- 1.5 However, the provisional local government finance settlement unexpectedly increased the 'referendum limit' for council tax from two to three per cent and, like last year, the Government's financing assumption was that all councils would act on this. The rules on increasing council tax for the social care precept were unchanged. This means that the council could choose to increase council tax by up to 5% in 2018/19 without the need for a referendum, of which 2% would be ring-fenced for adult social care (the social care precept). The previous intention was to raise council tax by 4% in 2018/19, which at the time of the February 2017 Council report was the maximum permitted by the legislation.
- 1.6 Taking into account the inflationary pressures that the council is subject to (which Ministers have confirmed were a significant factor in their decision to increase the referendum limit), the financial position in the round and the results of consultation through the Brent Connects and other meetings held by the date of despatch of this report leading Members have instructed officers to prepare the budget on the basis of a 4.99% increase in the Brent element of the council tax. The Mayor of London has announced plans for an increase in his precept of 5.07% (slightly different rules on the limits for the GLA apply due to its role as the police authority) making the overall increase in council tax 5.01%. This equates to £1,496.54 at Band D, or the equivalent of £28.78 per week, and the overall increase equates to £1.37 per week.
- 1.7 Agreeing the proposals in this report, all of which were consulted on and agreed in February 2017, will enable the Council to set a balanced budget in 2018/19 in accordance with its statutory obligations and consistent with the Borough Plan and Brent 2020 Vision, with the key features being:
 - Increases in council tax to minimise the requirement to reduce services;
 - Innovative capital investment to reduce costs in key services, such as temporary accommodation;
 - Planning for growth in services facing major demographic pressure, for example adult social care; and
 - Investing in key services for the most vulnerable elements of Brent's community, including for example council tax exemptions for care leavers until the age of 25.
- 1.8 Aside from the usual updating of and adjustments to various technical assumptions the key features of this budget would be:
 - A council tax increase of 4.99% for the Brent element, making a Band D council tax of £1,202.31. Additionally, the Council will levy a council tax of £294.23 at Band D on behalf of the Greater London Authority which is a 5.07% increase on last year. Therefore, the total council tax at Band D will be £1,496.54, a 5.01% increase on the 2017/18 level.
 - New budget savings proposals (all of which were agreed by Council in February 2017) with an aggregate value of £12.9m, as summarised in Appendix B (i).

1.9 This report is structured as follows:

- Recommendations for cabinet and full council to approve;
- Strategic overview of the financial and macro-economic climate;
- The forecasts against the current year's (2017/18) revenue budgets are summarised;
- Summary of the process to develop the budget;
- Changes to the revenue funding position, based on the final local government finance settlement, which was released after the last Cabinet report on the subject;
- The results of consultation, equalities and other relevant factors are set out;
- Updates from the Council's ring fenced budgets, specifically the Housing Revenue Account (HRA) and the Dedicated Schools Grant (DSG);
- The capital programme is presented along with the emerging investment strategy and the associated prudential borrowing indicators and treasury management measures; and
- Finally, the report considers the budget beyond 2018/19 and the approach to developing budget proposals.

2.0 Recommendation(s)

Cabinet

- 2.1 Agree to recommend to full council an overall 4.99% increase in the Council's element of council tax for 2018/19 with 2% as a precept for Adult Social Care and a 2.99% general increase.
- 2.2 Agree to recommend to full council the General Fund revenue budget for 2018/19, as summarised in Appendix A.
- 2.3 Note the cost pressures, technical adjustments and savings detailed in Appendix B.
- 2.4 Note the Dedicated Schools Grant as set out in section 9 of this report.
- 2.5 Note the report from the Budget Scrutiny Panel in Appendix C.
- 2.6 Agree to recommend to full council the capital programme as set out in Appendix D.
- 2.7 Agree to recommend to full council the Treasury Management Strategy and the Annual Investment Strategy for 2018/19 set out in Appendix E.
- 2.8 Note the Prudential Indicators measuring affordability, capital spending, external debt and treasury management set out in Appendix F.
- 2.9 Note the advice of the Director of Legal and HR as set out in Appendix G.
- 2.10 Agree, and where relevant agree to recommend to full council, the schedules of fees and charges set out at in Appendix H, and the proposed new fees and charges policy, including the officer delegated powers to which it refers.

- 2.11 Note the results of consultation as set out in section 7 and detailed in Appendix I.

Full Council

- 2.12 Agree an overall 4.99% increase in the Council's element of council tax for 2018/19 with 2% as a precept for Adult Social Care and a 2.99% general increase.
- 2.13 Agree the General Fund revenue budget for 2018/19, as summarised in Appendix A.
- 2.14 Agree the cost pressures, technical adjustments and savings detailed in Appendix B.
- 2.15 Agree the HRA budget as set out in section 8.
- 2.16 Agree the dedicated schools' grant as set out in section 9 of this report.
- 2.17 Note the report from the Budget Scrutiny Panel in Appendix C.
- 2.18 Agree the capital programme as set out in Appendix D.
- 2.19 Agree the Treasury Management Strategy and the Annual Investment Strategy for 2018/19 set out in Appendix E.
- 2.20 Agree the Prudential Indicators measuring affordability, capital spending, external debt and treasury management set out in Appendix F.
- 2.21 Note the advice of the Director of Legal and HR as set out in Appendix G.
- 2.22 Agree the schedule of fees and charges as set out in Appendix H and the proposed new fees and charges policy, including the officer delegated powers to which it refers.
- 2.23 Note the results of consultation as set out in section 7 and detailed in Appendix I.
- 2.24 Agree the Pay Policy Statement for 2018/19 as set out in Appendix J.

Council Tax recommendations

These recommendations only include a provisional Council Tax level for the GLA as its final budget was not agreed when this report was dispatched. This means that the statutory calculation of the total amount of Council Tax under Section 30(2) of the Local Government Finance Act 1992 may be amended by the final Greater London Authority precept.

- 2.25 In relation to the council tax for 2018/19 we resolve:

That the following amounts be now calculated by the Council for the year 2018/19 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992 as amended:

- (a) £977,851,775 being the aggregate of the amount that the Council estimates for the items set out in Section 31A(2) of the Act.
- (b) £862,818,362 being the aggregate of the amounts that the Council estimates for the items set out in Section 31A(3) of the Act.
- (c) £115,033,413 being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year.
- (d) £1,202.31 being the amount at (c) above, divided by the amount for the tax base of 95,677, agreed by the General Purposes Committee on the 8 Dec 2017, calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

(e) Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
801.54	935.13	1,068.72	1,202.31	1,469.49	1,736.67	2,003.85	2,404.62

being the amounts given by multiplying the amount at (d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

2.26 That it be noted that for the year 2018/19 the proposed Greater London Authority precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, in respect of the Greater London Authority, for each of the categories of dwellings are as shown below:

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
196.15	228.85	261.54	294.23	359.61	425.00	490.38	588.46

2.27 That, having calculated the aggregate in each case of the amounts at paragraph 2.26(e) and 2.27, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as

the amounts of council tax for the year 2018/19 for each of the categories of dwellings shown below:

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
997.69	1,163.98	1,330.26	1,496.54	1,829.10	2,161.67	2,494.23	2,993.08

2.28 That it be noted that the Chief Finance Officer has determined that the Council's basic amount of Council Tax for 2018/19 is not excessive in accordance with the principles approved under Section 52ZB of the Local Government Finance Act 1992.

- (a) That the Chief Finance Officer be and is hereby authorised to give due notice of the said council tax in the manner provided by Section 38(2) of the 1992 Act.
- (b) That the Chief Finance Officer be and is hereby authorised when necessary to apply for a summons against any council tax payer or non-domestic ratepayer on whom an account for the said tax or rate and any arrears has been duly served and who has failed to pay the amounts due to take all subsequent necessary action to recover them promptly.
- (c) That the Chief Finance Officer be and is hereby authorised to collect revenues and distribute monies from the Collection Fund and is authorised to borrow or to lend money in accordance with the regulations to the maximum benefit of each fund.

2.29 That in the event that the GLA sets a different council tax precept to that set out in this report (which was the published provisional amount at the date of despatch) that authority be delegated to the Chief Finance Officer to vary the amounts at 2.26, but only insofar as to reflect the GLA decision, and to make consequential, but no other, amendments to the amounts at 2.27.

3.0 Strategic Overview

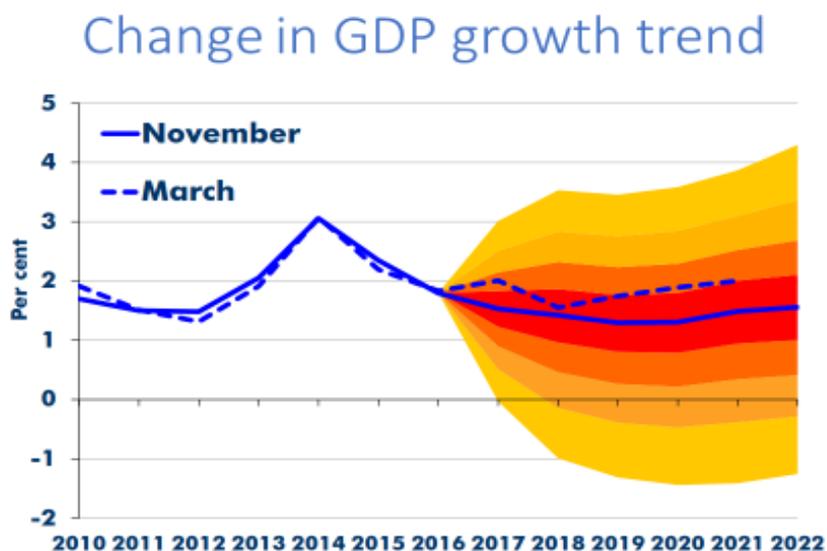
3.1 The council takes a long-term and strategic approach to its corporate and financial planning, linking the Borough Plan and Brent 2020 Vision to the budget decisions set out by way of this report. This has been adapted, and will continue to be adapted, in order to meet residents' most important needs whilst remaining within the financial constraints imposed by the ongoing austerity regime.

3.2 The proposals in this report enable the Council to balance the 2018/19 budget whilst giving some protection to front line services and investing in key projects and priorities. The funding gap in future years, estimated at around £30m for 2019/20 and 2020/21, demonstrates the difficult service decisions ahead as central government funding reductions continue to reduce the resources available to meet increasing service demands.

3.3 As reported previously, demographic change in Brent continues to drive costs.

The Office for National Statistics projects that from 2017 to 2020 the number of over 65s in Brent will grow by over 8%; and the number of under 15s by 3.5%. This is much faster than the population as a whole, which is nonetheless forecast to grow by 3.2%. The estimates of the likely costs of these pressures, set out in the October and December Cabinet reports, are still considered realistic.

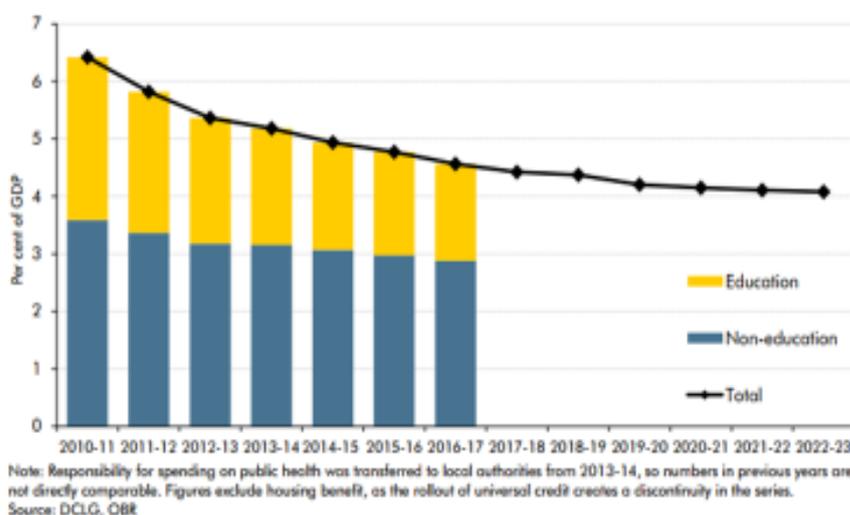
- 3.4 Also as previously reported the autumn statement provided little to ease the financial pressures facing Local Government. It is particularly disappointing that there were no new measures to address the financial pressures on councils on adult social care and children's social care. It is worth remembering that whilst the emphasis seems to be less on austerity than previously, local government appears to remain relatively far down the list of spending priorities, compared with say the NHS, Education and many other areas of public policy.
- 3.5 At the national level the debate over Brexit is likely to dominate political proceedings. Whilst there is much speculation about what sort of deal might be negotiated and what its national and local consequences might be the reality is that it is too soon to be able to make any sort of reliable estimate of the consequences for local government.
- 3.6 In this context, the Office for Budget Responsibility's economic outlook following the autumn statement highlighted that growth will be slightly weaker than expected with a weaker outlook for growth over the medium term. Overall there appears to be a less optimistic view on economic growth than the previous budget, which is illustrated in the chart below:



- 3.7 The Provisional Local Government Finance Settlement was announced on 19 December 2017. As Brent, like almost every other local authority, had signed up to the four year spending deal offered last year this confirmed the significant funding cuts from 2016/17 to 2019/20. Based on the Government's projections of the funding that will be available to local government, funding will fall by 5.4% in 2018/19 (5.8% for London Boroughs), and in real terms by 21.8% by 2019/20 (20.2% for London Boroughs). This continued reduction in local government funding since 2010 is further illustrated in the chart below:

Local government expenditure as % of GDP

- 7+ years of reductions as % of GDP



Source: OBR

3.8 London Councils, on behalf of the Chief Executives' Liaison Committee (CELC) and the Society of London Treasurers (SLT) undertook a comparative analysis of London Boroughs' future spending plans and savings targets. The intention was to conduct a 'stress test' of those plans by modelling plausible scenarios, such as non-delivery of savings or reductions in tax base, to understand the relative ability of boroughs to withstand financial shocks. In brief the survey found that:

- There has been a reduction in overall reserves in London Boroughs of approximately 10% and future plans show an acceleration in their use; Brent has done well to avoid needing to use reserves this way so far, particularly as the general reserve is at a relatively low level compared to other London boroughs.
- In total £1.6 billion of savings need to be secured over the next three years, of which £500 million is yet to be identified; Brent's position is fairly typical in this respect.
- Many London boroughs are planning significant savings in adults and children's social care services even though these are overspending against existing budgets; Brent, despite recent pressures, has a good record of controlling these budgets in recent years.
- Four areas dominate growth pressures; social care, inflation, pay, and homelessness; Brent has achieved savings in the cost of supporting homeless families but faces the same spending pressures in the other areas.

3.9 Perhaps not surprisingly the survey also showed that the ability of London boroughs to withstand major financial shocks was limited. If a combination of shocks hit simultaneously, for example a significant recession simultaneously triggering reduced income from business rates, declining council tax collection rates and increased homelessness costs then all London boroughs would struggle to meet their commitments over the medium term. Brent's position was somewhat favourable in the comparative analysis, reflecting the council's relatively strong balance sheet, but nonetheless the strategic point to emphasise is that continued and disproportionate reductions to local government funding have now severely constrained the sector's ability to manage further pressures.

4.0 The Council's current year revenue budget and forecasts

4.1 The table below shows the Council's current revenue budget and forecasts. Overall, expenditure will be contained within budget. Whilst this is a good position it masks some over and underspends across different funds. Underspends in the HRA and the DSG funded element of the general fund are offsetting an overspend of £0.6m in the rest of the general fund, which had been forecast to spend within budget at the last report to Cabinet, in November 2017.

4.2 This adverse movement is due to increased forecast overspend in Community Wellbeing (£0.3m increase on the £0.5m previously reported) and a forecast overspend in Children & Young People (a new variance of £0.1m). Both of these relate mainly to social care placement costs, planned savings not yet achieved, and increased staffing costs. These overspends are partially offset by underspend in Regeneration & Environment of £0.6m (unchanged since last report) relating principally to vacancies in the service and increased income. The Housing Revenue Account (HRA) is expected to underspend as a result of additional income from leaseholders; as is the Dedicated Schools Grant (DSG), mainly due to reduced growth in primary school place requirements.

Department	Budgeted Income	Budgeted Expenditure	Net Budget	Forecast spend	Variance
Figures as at December 2017	£m	£m	£m	£m	£m
Children & Young People	(29.2)	70.0	40.8	40.9	0.1
Community Wellbeing	(74.2)	202.2	128.0	128.8	0.8
Regeneration & Environment	(39.3)	74.0	34.7	34.1	(0.6)
Resources	(16.7)	51.1	34.4	34.4	0.0
Performance, Policy & Partnerships	(1.2)	10.8	9.6	9.6	0.0
Central Items (excludes Housing Benefit)	(291.7)	44.2	(247.5)	(247.5)	0.0
Total (General fund)	(452.3)	452.3	0.0	0.3	0.3
DSG funded activity (see table three)	(201.0)	201.0	(0.0)	(2.5)	(2.5)
HRA funded activity (see table four)	(53.1)	57.1	4.0	2.2	(1.8)
Overall position	(706.4)	710.4	4.0	0.0	(4.0)

4.3 These forecast results are subject to various risks and uncertainties and a number of actions and interventions are being put into place to address the

areas of overspend. These are set out in more detail in the Financial Forecast Q3 report on the same agenda. That being said, there are some overspends that are structural and may continue into 2018/19 if the issues causing them are not addressed. The most significant is the cost of providing transport for children with special educational needs, driven by larger than expected increases in passenger numbers.

- 4.4 In addition, Transport for London recently announced revised funding allocations up to 2021/22. Unexpectedly, this included large reductions to Local Implementation Plan (LIP) grants received by London Boroughs to deliver the Mayor's Transport Strategy. The GLA and the London Boroughs were not formally engaged on the business plan prior to its publication and there remains an expectation to deliver the schemes as planned, for example secure cycle parking, cycle training, car clubs, reduction of clutter, installation of electric vehicle charging points, school and workplace travel plans, training and publicity. The reduction in funding is £0.3m (11%), which will impact on the resources available for the service and furthermore create uncertainties with regards to future planning and delivery of such schemes. That being said, these pressures can be contained within the overall budget envelope for the Council without requiring additional savings to be made. All other overspends are expected to be addressed so that they do not re-occur.

5.0 Budget Development Process

- 5.1 The Council set its budget and council tax for 2017/18, and its business plans for 2018/19, at the 27 February 2017 meeting. This included the delivery of £19.8m of savings in 2017/18 and plans for £12.9m of savings to be delivered in 2018/19. The proposals were developed by the members of the Cabinet, taking account of the advice of officers. As a reminder, the budget development process was as follows:

- Meetings involving Cabinet and Corporate Management Team members to consider the key service and budget issues likely to affect the council in future years;
- Development by officers, in consultation with relevant Lead Members, of budget proposals for individual services within the context of the Borough Plan and the overall resources available;
- The publication of a detailed list of savings proposals at Cabinet in October 2016 for consultation purposes;
- Debates through the Budget Scrutiny Panel of the Scrutiny Committee;
- Presentations and question and answer sessions at each Brent Connects meeting, and three pop up consultations;
- Considering feedback from the public, whether received by the general 'consultation@brent.gov.uk' email address or other direct representations;
- Receipt of petitions from the public and representations from other interested parties, such as recognised trades unions and local businesses; and
- Conducting Equality Impact Assessments of the budget proposals in order to ensure that their consequences were properly understood.

- 5.2 Following the February 2017 meeting, Cabinet received an update on the financial position on 27 July 2017 and 11 December 2017, as well as updates on business rates devolution and the financial position generally. The Budget Scrutiny Panel also reviewed the position again, and its report is attached as Appendix C. In addition, residents were consulted in the usual way (e.g. through Brent Connects and via the website). It was reasonable to adopt this low-key approach as no new savings proposals have been introduced since February 2017. It is also important to bear in mind that the additional savings for 2018/19 include significant savings (nearly £5m) from improved contract management without reducing service standards, savings in support service costs of around £2m, ongoing transformation of adults and children's social care (£2.2m) and additional income of over £2m: in other words the direct impact on service standards to residents should not be significant.
- 5.3 This report updates the position on the core estimates that drive the budget development process, including the outcome of the provisional settlement and the consultation process.

6.0 Future Revenue Funding Position

- 6.1 The provisional 2018/19 Local Government Finance Settlement was announced on 19 December 2017 and provided details of the core funding allocations for local authorities in 2018/19 and 2019/20. As this is the third year of the current 'four year offer' period the figures were within those previously assumed as part of the 2017/18 – 2018/19 budget setting process agreed in February 2017. The key headlines that are relevant for Brent from a financial planning point of view are set out below.

Revenue support grant (RSG) and business rates top-up

- 6.2 There are no changes to Brent's previously announced allocations as, like most other councils, last year Brent signed up to the Ministry of Housing, Communities & Local Government (MHCLG) proposal to fix RSG and business rates top-up until 2019/20.
- 6.3 The settlement confirms Ministers' intention to undertake a fundamental review of the basis of grant allocations, effective from 2020/21 onwards (the 'Fair Funding Review'). It is still not possible to make reliable estimates of the impact this will have on Brent and this uncertainty remains the largest single variable in the council's long-term financial planning. The results of the Fair Funding review are not expected before late 2019, making long-term financial planning difficult. In the meantime officers will follow developments and respond to the next stage of the technical consultation, the deadline for which is 12 March 2018.

Council Tax

- 6.4 Unexpectedly, the MHCLG have increased the 'referendum limit' for council tax to 3% in recognition of higher than expected inflation and the pressures on services such as social care and policing. It was previously 2%, on which the Council has consulted and assumed in its financial planning. No changes were announced to the social care precept. This means that Brent could choose to increase its council tax by 4.99% without holding a referendum (2.99% for core

services plus a 2% adult social care precept). Technically, the precept can be increased by 4% over the next two years provided it is not increased by more than 3% in any one year. Last year the Council decided to increase the precept by 2% per annum. At present the financial plans are based on an assumption of an overall rise of 3.99%, and the 2018/19 budget would be balanced at 3.99%. The key differences between a 4.99% and a 3.99% increase would be additional income of approximately £1.1m, excluding the GLA element which is proposed to increase by 5.07%.

- 6.5 It is worth noting that the MHCLG core spending power assumptions in the settlement assume that all local authorities in England will increase their council tax in line with the 3% referendum limit in both 2018/19 and 2019/20 – in other words that there is an implicit assumption from MHCLG, built into the future funding settlements, that local authorities will increase council tax by up to the referendum limit. As the increase would permanently increase the council tax base income it would also reduce the significant funding pressures in 2019/20 and beyond.
- 6.6 After due consideration the recommendation of this report is that the additional flexibility to increase the core element of council tax by an additional 1% be taken forward and that the budget should be constructed on the basis of a council tax increase of 4.99% in 2018/19.
- 6.7 This increase will initially be held as a general contingency, and to meet the additional costs of transporting children with special educational needs referred to above. It will also enable the proposed exemption from council tax for care leavers to be built into the budget without the need to identify compensating savings, and to offset the significant financial pressures identified for 2019/20 and beyond.

Business Rates

- 6.8 The announcement of 75% devolution of business rates by 2020/21 was unexpected but coincides with the start of the new funding baselines that the Fair Funding Review will establish. It is too early yet to do more than speculate how this will work in practice, as all of the previous policy announcements have been predicated on MHCLG working towards 100% devolution.
- 6.9 Ministers have confirmed that pilot pools will continue to test the 100% system, on the basis that this allows for a rigorous testing of certain technical aspects of the proposals, especially around revaluations and appeals. It is currently unclear which additional services local government will be expected to fund from the additional retained business rates, nor is it clear how many of the other technical aspects of 75%, rather than 100%, devolution would in fact need to be handled.

London Business Rates Pilot Pool

- 6.10 The Chief Finance Officer, under delegated authority, approved the Government's Designation Order for Brent to participate in the London Business Rates Pilot Pool, along with all other 32 London Boroughs and the GLA for 2018/19.

- 6.11 A Pan London pool will mean that £470m of business rates income will be retained in London, which is £240m higher than the same assumptions that would result under the current scheme. This will mean that London will have greater control over the level of business rates that is generated in the Capital – sharing the risk locally but also sharing the benefits that growth generates. The latest modelling indicates that the net financial benefit to Brent of participating in the Pool is estimated to be £4.9m for 2018/19. This is based on estimates using forecasts from London Boroughs and are therefore only illustrative and a lower set of figures is entirely possible. However, the example serves to illustrate the potential direct financial benefit of joining a pool on the pilot basis being offered.
- 6.12 Following the settlement, London Councils' circulated an updated business rates pilot pooling model which included the published baselines. While there were no material changes to figures previously published, a significant caveat to the estimated shares of the overall net financial gain is that it relies on growth estimates from a survey conducted in May 2017. The financial modelling will next be updated using the annual NNDR1 return submitted to MHCLG in January 2018. This should give a much more accurate forecast of growth expected in 2018/19 and therefore Brent's share, but will not be complete across London by the date of dispatch of this report.
- 6.13 It is important to stress that the final value of additional income due to Brent from the trial will not be known until the Statement of Accounts for the Pool Collection Fund, managed by The City of London Corporation, has been finalised and audited in the summer of 2019. Given this uncertainty, and given that it should be for the Administration newly elected in May 2018 to make longer-term financing decisions, the budget at this stage does not allocate any of this potential one-off benefit to services or projects. It will be sensible to review the position after a few months of operation of the pool, and officers will timetable a report accordingly.
- 6.14 The table below illustrates the change in core funding for Brent arising from the pilot pool. Existing grant income streams will be replaced by the retained business rates from the pool with a net estimated improvement in Brent's position of £4.9m as set out above.

	2018/19	2018/19
	Original Brent Budget	London Councils estimate
	£m	£m
Income		
RSG	33.7	0
NDR (50% retained)	37.8	0
NDR top up	51.0	0
NDR Pooling	0	127.4
Total Core Funding	122.5	127.4

- 6.15 In addition to the £4.9m estimated gain (which will be one-off not base budget funding) from the 100% business rates retention pilot pool the latest data also suggests growth in the core business rates in Brent, captured through the statistical NNDR1 return. This position will be closely monitored during 2018/19 but at this stage it is not thought prudent to build this potential additional income into the base budget, especially given the economic uncertainty referred to above.
- 6.16 In addition probable changes to the capital financing regime are likely to be introduced by MHCLG. These appear to be aimed at authorities that, unlike Brent, are perceived not to have made appropriate provision for the repayment of long-term debt. However, the 'catch-all' nature of the proposed regulations (which are subject to consultation) may nonetheless require Brent to increase the rates at which it provides for debt repayment in some cases. Officers would consider this to be unnecessary in Brent's case, although not necessarily damaging in the long-term. However, until the position is clarified it would be sensible to consider that additional capital financing charges may be required in 2018/19 or later years and hence to take a measured approach to allocating the expected additional business rates income.

Final Settlement

- 6.17 On 6 February 2018, MHCLG published the final local government finance settlement for 2018/19. There are two changes of note to the final settlement figures for 2018/19 that are relevant to Brent;
- Firstly, there is £150m of additional funding through the Adult Social Care Support Grant with Brent's share being £0.8m. This is funded from underspends in existing Government departments and will not affect existing revenue commitments made to local government. As the additional grant was unexpected, it is proposed to be held centrally until decisions are made as to how it should be spent. This leaves the overall budget for 2018/19 still in a balanced position.
 - On 18 January 2018, MHCLG wrote to Local Authorities advising them of a technical error in the provisional settlement calculations. The Valuation Office Agency (VOA) published updated revaluation statistics which as a consequence changes the calculation of Brent's NNDR top up grant. The final tariffs and top-ups have been adjusted as a result of the error and impact for Brent is a loss of £12,280.02.

Changes to financing assumptions since December

- 6.18 The report to Cabinet for 11 December 2017 was based on estimates of what would be proposed within the settlement, and it is therefore necessary to update these assumptions in setting the final budget following the final settlement. The following table and section summarises these changes.

	Pre Settlement	Post Settlement
	2018/19	2018/19
	£m	£m
Income		
Revenue Support Grant	(33.7)	0
Business Rates retained	(37.8)	0
Business Rates top up	(51.0)	0
Business Rates from the London Pool *	0	(122.5)
Council Tax	(113.9)	(115.0)
Specific Grants	(28.4)	(29.2)
Total Income	(264.8)	(266.7)
Expenditure		
Net Budget brought forward from 2017/18 before in year growth and savings	265.5	265.5
Demographic Growth	3.0	3.0
Other Growth	10.4	12.3
Savings presented in February 2017	(12.9)	(12.9)
Technical adjustments	(1.2)	(1.2)
Total Expenditure	264.8	266.7
Balance	0.0	0.0

* As set out above the potential one off benefit of business rates pooling is not taken into account at this stage.

Greater London Authority (GLA) and the Council Tax precept

- 6.19 Each financial year, the Mayor and London Assembly must prepare and approve a budget for each of the constituent bodies and a consolidated budget for the authority as a whole.
- 6.20 On 21 December 2017 the Mayor of London published his draft revenue budget for 2018/19 for consultation, in which it is proposed to increase the precept by £14.21 (or 5.1%) to £294.23 per Band D property in the 32 London Boroughs. The increase in the precept is the maximum amount allowed before triggering a referendum for both the policing element (£12 or 5.8%) and the non-policing element (£2.20 or 2.99%). These figures are subject to change following the consultation process and confirmation of London Borough's tax bases. The final budget will be considered by the London Assembly on 22 February 2018.

Overall impact and conclusion

- 6.21 Aside from the wider and long-term strategic considerations the council will also need to deal with the specifics of budget setting. Decisions of external bodies affect the budget process. Notifications from some levying bodies and of some grants are still awaited, but are expected to be managed within the proposed budget.
- 6.22 Overall, taking into consideration the additional income from council tax with the additional cost pressures mentioned in this report, the budget for 2018/19 is still in a balanced position and no new savings proposals need to be developed.

7.0 Equalities, Scrutiny and Consultation

Equalities

- 7.1 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 unlawful discrimination, advance equality of opportunity and foster good relations between different protected groups when making decisions. The groups protected by law, also known as protected characteristics, are age, disability, gender, race, religion or belief, pregnancy and maternity, marriage and civil partnership, sexual orientation and gender reassignment. Although socio-economic status (people on low income, young and adult carers, people living in deprived areas, groups suffering multiple disadvantage, etc.) is not a characteristic protected by the Equality Act 2010, Brent Council is committed to considering the impact on socio-economic groups.
- 7.2 The PSED does not prevent decision makers from making difficult decisions in the context of the requirement to achieve a significant level of savings across all operations. It supports the Council to make robust decisions in a fair, transparent and accountable way that considers the diverse needs of all our local communities and workforce. Consideration of the duty should precede and inform decision making. It is important that decision makers have regard to the statutory grounds in the light of all available material, including relevant equality analyses and consultation findings. If there are significant negative equality impacts arising from a specific proposal, then decision makers may decide to amend, defer for further consideration or reject a proposal after balancing all of the information available to them.
- 7.3 Members are reminded that the budget can be described as a financial plan of the Council's current operational intent. Where known, the equality impact of change must be disclosed. In February 2017 Full Council agreed its budget for 2017/18, and also approved the budget proposals to be built into the budget from 2018/19. These proposals went through a consultation process and were subject to equality impact assessments (EIA). This included the savings proposals for 2018/19 and the proposal to increase council tax by 3.99%.
- 7.4 The savings proposals for 2018/19 are set out in more detail in Appendix B. All savings proposals have been subject to the Council's EIA process to assess their potential/likely impact on service users and employees with protected characteristics. Where the EIA process has identified a disproportionate negative impact with no reasonable mitigation, the proposals have been subject to a full EIA.
- 7.5 As mentioned in section 6, it is proposed to increase council tax by 4.99% in 2018/19, which is an additional 1% on which the EIA was originally based upon after the Government raised the referendum threshold by 1% in recognition of higher than expected inflation. An additional 1% will add 22p on to the weekly bill of an average Band D property. Therefore, as the increase is relatively small compared to what the original EIA screening was based upon, it is proposed to not repeat this analysis on the basis that the outcome would broadly be the same.

Scrutiny

- 7.6 In 2016 the Scrutiny Committees reviewed the savings proposals for 2017/18 and 2018/19 through their budget panel and also the process through which they were developed. As a result, the scrutiny process for 2017 was undertaken in a slightly different way and focused on specific policies where the panel had concerns (rather than reviewing all spending plans again) and scrutinising the proposals for pooling business rates for London. The panel's report and recommendations are attached in full at Appendix C.

Consultation

- 7.7 The council recognises consultation as a key part of policy formulation, and makes considerable effort to ensure that the views of residents and other groups are taken into account. The Council has consulted on the budget options in a variety of ways. Legally, the results of consultation are something that Members must have due regard to in making budget decisions. However, consultation need not legally be the single or even most significant determining factor in choosing between difficult options, although at Brent considerable emphasis is usually placed on the results of consultation.
- 7.8 The Council conducted an extensive consultation process between December 2016 and February 2017 where the savings proposals for 2017/18 and 2018/19 were presented. This included attendance at all of the Brent Connects meetings, an online consultation and responses received by post on the specific budget proposals. Three pop up events on the budget with the Leader and Deputy Leader were also held during January 2017.
- 7.9 As set out in this report, provided the decision on increasing Council Tax is agreed, the service budget for 2018/19 can be set on the basis of savings proposals which have already been consulted on extensively. That being said, as Brent Connects is a well-established consultation mechanism for local residents, businesses and other stakeholders, all of the planned meetings in 2018 were attended, as set out below:

Date	Location	Attendance
17 January	Brent Connects Wembley	27
30 January	Brent Connects Kilburn	23
6 February	Brent Connects Willesden	44
8 February	Brent Connects Kingsbury & Kenton	20
19 February	Brent Connects Harlesden	To follow

- 7.10 At these events the Leader of the Council delivered a presentation outlining the overall financial position and the difficult choices faces by the Council. The Leader and Deputy Leader then took questions from the audience and provided answers, supported by senior officers where appropriate for matter of technical detail.
- 7.11 As consultation was not planned to finish until after dispatch of this paper, a supplementary paper will be published before the Council meeting on 26

February summarising the responses. Appendix I, summarises the responses received from the first four meetings.

- 7.12 Consultation with local Brent businesses was also carried out via West London Business (a non-profit business leadership forum), the Federation of Small Businesses, the Town Centre Business Association and the Business Board. At the date of writing one response was received, which asked for further clarification on the budget setting process rather than a specific comment on the budget proposals.
- 7.13 All of these consultation responses are important. Members need to have regard to them, but are not obliged to follow the suggestions made. It is relevant to note that the consultees are, statistically speaking, “self selecting” and therefore not necessarily reflective of opinion in the borough as a whole, nor are they necessarily statistically significant. On the other hand, the people who have responded have chosen to take the time to review the council’s proposals and to contribute their thoughts, and often their views will be representative of the views of a much larger number of people.

8.0 Housing Revenue Account Budget

- 8.1 The Housing Revenue Account (HRA) is a record of revenue expenditure and income, relating to the authority's own housing stock, i.e. it reflects the council's landlord role. There can be no cross-subsidy between the General Fund and the HRA, although legitimate charges flow between the accounts. Any balances on the HRA at the end of the year are carried forward within the HRA to the next year. The council must agree and publish an annual budget for the HRA.
- 8.2 A detailed report on the HRA budget for 2018/19 was agreed at Cabinet on 12 February 2018. That report set out proposals for an overall rent reduction of 1% for the main properties within the stock. The Welfare Reform and Work Act 2015 requires the council to reduce rents by 1% per year, for four years with effect from April 2016.
- 8.3 The 2018/19 HRA budget includes the following:
- The Government’s required rent reductions of 1% per annum in each of the four years from April 2016. As a result of the government’s rent reduction policy 2018/19 rental income will be £0.463m less than in 2017/18
 - An increase in service charges for HRA dwellings by an average of £0.27 per dwelling per week.
 - Savings of £1.32m, mainly from the reduction in the Housing transformation budget and a reduction to communal utilities and wardens contracts.
 - Growth of £1.29m, mainly from repairs and maintenance budgets to reflect anticipated demand.
 - The current level of HRA borrowing is expected to be £136.6m at 31 March 2018. Brent’s HRA borrowing limit under HRA self-financing is £199.3m; and the estimated HRA borrowing “headroom” is £62.7m.
 - HRA Reserves brought forward from 2017/18 are estimated to be £2.541m. The HRA budget for 2018/19 assumes that this will be used in full.

9.0 Schools Revenue Budget

- 9.1 The Dedicated Schools Grant (DSG) has been announced at a total of £311.8m across all four blocks for 2018/19. This is an increase of £3.7m compared to the £308.1m allocated in 2017/18. The breakdown of this £3.7m is; an additional £1.7m for the schools block for the announced 0.5% per pupil funding increase, £1.2m for the High Needs Block due to funding protections now being calculated and applied across Brent's 0-18 year old population, and £0.8m for the Early Years Block due to the 30 hours entitlement offer, introduced in September 2017, being in place for the full financial year.
- 9.2 The schools block increase by the Department for Education (DfE) of 0.5% per pupil was reviewed with Schools Forum and found to be insufficient for mainstream schools facing staffing and other inflationary cost pressures, meaning that the cash increase was a real terms funding cut. It was estimated in the autumn of 2017 that mainstream schools would require at least a further £2m in overall funding to keep pace with these cost pressures in 2018/19. The DfE forecast there will be a further £1.1m of additional funding in 2019/20, but again this is unlikely to keep pace with inflation.
- 9.3 In October and December 2017 Schools Forum considered the DSG reserves which currently stand at £6m. The Schools Forum recommended that £2.5M of these reserves be used in the mainstream schools funding formula to protect schools from inflationary pressures. The forum also recommended that reserves would again be utilised to sustain the resulting funding formula in 2019/20. It was also recommended to the Cabinet that of the remaining DSG reserves £1m be earmarked to contain pressures or invest in the High Needs block, and another £1m earmarked as a contingency against pressures in Early Years provision. The DSG is forecast to underspend in 2017/18 so the remaining DSG reserves will remain at a sufficient level of at least £4.5m.
- 9.4 Schools Forum did not recommend any fundamental changes to the local funding formula for mainstream schools, so the additional £1.7m from the DfE and £2.5m of reserves is being allocated proportionately across the current mix of pupil funding factors, with individual school funding allocations consequently a function of pupil numbers, the levels of deprivation, and other measures of additional pupil need.
- 9.5 School funding is calculated from the October census data, the year on year change is a very slight fall in the pupil population, which broadly remains at 42,000. Reception and year 1 pupil numbers have decreased compared to last year with the result that some primary phase schools have seen their total pupil numbers decrease. Pupil growth has clearly shifted to the Secondary phase with 8 out of 12 Secondary schools seeing an increase in pupil numbers. It is also noted that the number of pupils that qualify for the English as an Additional Language (EAL) measure has fallen from 4,983 to 4,512, which is a decrease of nearly 10%.
- 9.6 This means that within the overall funding increase of £4.2m the changes in pupil numbers and cohorts will affect individual schools differently. 39 of 75 schools have seen a decrease in pupil numbers with the result that 26 will see their cash allocation drop, although per pupil funding has increased for most of these schools. Growth budgets of £3.1m will be retained to assist with

secondary phase growth and localised primary phase pressures and commitments.

- 9.7 The High Needs block is under pressure from increased demand but the funding increase of £1.2 million will meet this and allow for a 2% top up funding rate to enable special provisions to keep up with inflationary pressures. Schools Forum is recommending that the High Needs block is balanced within the annual funding of £54.8m, and will consider the use of the £1m earmarked reserves for appropriate investments.
- 9.8 The Early Years block funding rate has reduced as expected to £5.37, but as this was planned for when the Brent Early Years Single Funding Formula was rebalanced the current funding rates for providers will not be cut. Funding for centrally funded services will however be reduced as the pass through requirement means that 95% of early years block funding must be allocated out to providers, rather than 93% in 2017/18.

10.0 Pay Policy Statement 2018/19

- 10.1 Section 38 of the Localism Act 2011 requires local authorities to publish an annual 'Pay Policy Statement', setting out their policies in respect of chief officer remuneration and other specified matters. Regard must be had to guidance to be published by the Secretary of State in preparing the statement, which must be approved by full Council. The Council is then constrained by its pay policy statement when making determinations on chief officer pay, although the statement may be amended at any time by a further resolution of the full Council.
- 10.2 The Council's proposed Pay Policy Statement for 2018/19 is provided at Appendix J and contains minor updating and clarification amendments to last year's Statement. In summary, the following pay scales have been adopted by the council:
- Greater London Provincial Council (GLPC) London Pay Scales (GLPC job evaluated and Greater London Whitley Council evaluated) (main pay scales)
 - Senior Manager Pay Scales (Hay job evaluated) (senior managers)
 - Soulbury Pay Scales (Education Psychologists, Advisors and Inspectors)
 - Soulbury Pay Scales (Youth and Community Service, Young People and Community Service Managers)
 - Teaching Pay Scales (for centrally employed local authority teachers)

11.0 The Capital Programme and Investment Strategy

The 2017/18 Capital Programme

- 11.1 The capital programme for the 2017/18 financial year was £242.3m. The latest forecasts estimate that only £215.6m will be spent and so the balance has been re-profiled into 2018/19 or later years. The underspend, which is around 11% of the total programme, whilst undesirable, is significantly less than in previous years.

11.2 The table below shows the 2017/18 forecast against budget.

Board	Budget £m	Forecast Outturn £m	Variance £m
Corporate Landlord	3.5	3.8	0.3
Regeneration Board	12.1	10.5	(1.6)
Housing Care Investment Board	153.5	138.5	(15.0)
Schools Programme Board	33.3	33.0	(0.3)
South Kilburn Programme Board	12.7	13.1	0.4
Public Realm Board	27.2	16.7	(10.5)
Grand Total	242.3	215.6	(26.7)

The 2018/19 to 2020/21 Capital Programme

11.3 The table below summarises the capital programme as agreed in March 2017, including monies carried forward from the previous year. It then sets out:

- a) Those cases where the timing of the practical delivery of schemes is now expected to be different to that anticipated when the budget was set, and hence also shows the re-profiling of the capital programme required to reflect this. By definition these changes do not alter the total amount of capital allocated, merely the timing of anticipated delivery.
- b) Those cases where additional grants can result in additional expenditure within the programme, and the financing and expenditure figures have been amended accordingly. An example these are works funded by Transport for London.
- c) Those cases where, since March 2017, Cabinet has authorised additional expenditure through specific decisions, which now need to be formally reflected into the capital programme. These schemes are have no requirement for additional net revenue expenditure. The capital financing has been updated to reflect these schemes. The schemes are:
 - Knowles House – further investment, £7.5m (Cabinet decision 19 June 2017);
 - Plot 3 Land East of Victoria Centre, Park Royal, £31.0m (Cabinet decision 24 May 2017);
 - Acquisition of land at 136 Honeypot Lane, £6.25m (Cabinet decision 11 November 2017).
 - Olympic Way Zones B and C total cost of £17.8m funded from Strategic Community Infrastructure Levy contribution (Cabinet decision 24 July 2017);

- Tricycle Theatre Renovation Project, £1.0m (Cabinet decision 24 April 2017);
- Digital Strategy, £5.6m (Cabinet decision 19 June 2017);
- PRS Acquisition Programme, £50m (Cabinet decision 23 October 2017);
- Fire Safety, £10m (Cabinet decision 13 November 2017);
- Queens Park/Cullen House – JV £40m (£20m - 2020/21 and £20m – 2021/22) (Cabinet decision 15 January 2018);
- S106 projects, £6.6m (Cabinet decision 13 November 2017). Additional £6.7m is expected to be allocated in 2018/19.
- Highways & Transport, £3.5m (Cabinet decision 24 April 2017);
And
- £10.3M grant funded projects was added. This includes: Aids and Adaptations, approved Neighbourhood CILs, additional New Homes Bonus and other minor projects. These required no cabinet approval.

d) This brings the capital programme up to date. A series of further proposals are then set out for consideration.

11.4 A summary of the proposed capital programme is below.

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Approved Budget - Feb 2017	218.0	144.6	60.6	0.0	423.2
Carry-forward from 2016/17	0.0	13.7	0.0	0.0	13.7
Amended Original Budget	218.0	158.3	60.6	0.0	436.9
Additional Schemes Approved by Cabinet					
Knowles House	0.0	0.0	7.5	0.0	7.5
PLOT 3	0.0	12.0	12.0	7.0	31.0
136 Honeypot Lane	6.3	0.0	0.0	0.0	6.3
Fulton Road/Olympic Way Pedestrian Improvements	0.0	6.0	6.0	5.8	17.8
Tricycle Theatre	1.0	0.0	0.0	0.0	1.0
Digital Strategy	1.2	3.0	1.3	0.0	5.6
PRS Acquisition Programme	0.0	50.0	0.0	0.0	50.0
Fire Safety - HRA	0.0	10.0	0.0	0.0	10.0
Queens Park/Cullen House, South Kilburn - JV	0.0	0.0	0.0	20.0	20.0
S106 Projects - PR	6.6	6.7	0.0	0.0	13.3
Highways & Transport - Brent	0.0	0.0	0.0	3.5	3.5
Highways & Transport - TFL	3.6	0.0	0.0	0.0	3.6
Other Grant funded projects	10.3	0.0	0.0	0.0	10.3
Budget prior to Re-profiling	246.9	246.0	87.4	36.3	616.7

Re-profiled - General Fund	(19.4)	(57.3)	19.2	57.5	0.0
Re-profiled - HRA	(17.7)	(11.8)	29.0	0.6	0.0
Re-profiled Total Budget	209.8	176.9	135.6	94.4	616.7
Total Budget - General Fund	155.8	125.3	86.0	79.2	446.3
Total Budget - HRA	54.0	51.6	49.6	15.2	170.4
Total Budget	209.8	176.9	135.6	94.4	616.7
Items in the Pipeline					
Estimate of Projects Approved in 2018/19	0.0	50.0	175.0	175.0	400.0
Revised Budget February 2018	209.8	226.9	310.6	269.4	1,016.7

- 11.5 In addition, there is a reasonable expectation that a future council meeting will choose to continue with and expand successful capital programmes, such as NAIL and PRS acquisition. In addition, accumulated Strategic CIL receipts are now reaching the critical mass required to undertake major projects. Formal approval for these is not sought at this stage, but to provide this meeting with a proper sense of the scale of the capital programme it would be reasonable to expect capital programme additions of £50m in 2018/19, £175m in 2019/20 and perhaps the same again in 2020/21 – making the overall capital programme of the order of £1bn. This latter figure has been used for the capital financing calculations to ensure that capital expenditure and borrowing requirements are properly aligned.

Financing of Capital

- 11.6 Capital investment can be financed in a variety of ways. For the council the main sources are government grants, other external contributions, s106 and CIL receipts and council contributions, whether by way of borrowing or direct revenue contributions.
- 11.7 The table below notes the planned financing of the proposed expenditure. Overall, the borrowing requirement is the difference between the expenditure and the amount of financing available, with the caveat that some sources of funding are subject to conditions. Based on the Council's approved Capital programme and proposed projects, it will need to borrow £259.5m, consisting of £198.9m to fund General Fund schemes and £59.6m to fund the HRA schemes. The HRA borrowing cap is £199m with current headroom of £60m.

Borrowing Requirements

	Total 2017/18 to 2020/21		
	General Fund £m	HRA £m	Total £m
Approved Expenditure	446.4	170.4	616.7
Pipeline	400.0	0.0	400.0
ESTIMATED CAPITAL EXPENDITURE	846.4	170.4	1,016.7

Funding Source:

Capital Receipts (incl. RtB)	(250.6)	(48.8)	(299.3)
External Contributions	(1.2)	(12.0)	(13.2)
Grants	(168.3)	0.0	(168.3)
Section 106/CIL	(100.9)	0.0	(100.9)
New Homes Bonus	(43.4)	0.0	(43.4)
Internal Contribution	(0.7)	0.0	(0.7)
Earmarked Reserves	(83.1)	0.0	(83.1)
Major Repairs Reserve	0.0	(50.0)	(50.0)
ESTIMATED CAPITAL FUNDING	(648.0)	(110.8)	(758.8)

Estimated Requirement to be Funded from Borrowing	198.3	59.6	257.9
--	--------------	-------------	--------------

- 11.8 A key pillar of the Council's successful financial strategy has been to expand the capital programme, which will deliver substantial revenue savings, for example through the NAIL programme (£3m savings forecast over the next 2 years) and the PRS acquisition programme via i4B (£0.9m savings forecast over the next last 2 years). To date this has been managed without the need to enter into new borrowing commitments, but the table above makes it clear that this will no longer be the case. As set out in the Treasury Management Strategy (Appendix E) this will enable more efficient use of the council's resources, as we will no longer hold relatively high cash balances which cannot be invested other than for marginal returns.
- 11.9 It is critically important that any borrowing entered into must meet the tests set out in the CIPFA Prudential Code, specifically that they are prudent, affordable and sustainable. This requires detailed scrutiny of business cases to ensure that they cover all material risks and opportunities. Furthermore, borrowing that is ultimately entered into should only be undertaken when officers and Members are satisfied that appropriate provision has been made to ensure that the interest costs can be serviced and the principal eventually repaid.
- 11.10 Appendix F sets out the council's prudential indicators. It is important to stress that the authorised limit – the maximum amount that the council may borrow – has for a number of years been several hundred millions pounds above the level of actual borrowing – last year it was set at £400m above the level of actual borrowing. It is proposed to increase that headroom by £100m to £500m, in light of the Council's investment strategy, while recognising that the Council has been prudent with its estimate of the additional resources that may finance

capital spend. The cost of servicing this debt will be recognised as and when new capital expenditure commitments are confirmed, and clearly illustrates that the focus of the capital programme will need to continue to be on generating revenue savings.

12.0 Approach to budget proposals for 2019/20-2020/21

12.1 As reported to Cabinet in December 2017, officers' best estimate of the budget gap in 2019/20 was £19m and the gap in 2020/21 is estimated at £11m. Nonetheless, the exact gap is inherently uncertain, simply because of the number of variables to be estimated and the difficulty of doing so over longer periods of time. In the current circumstances, with a lack of a clear national policy direction on many aspects of local government finance it is even more than usually difficult to do so.

12.2 The most significant uncertainties within the local government finance system are:

- The Improved Better Care Fund, if it is built into long-term financial plans (which government has to date declined to do) has the potential to reduce the gap significantly.
- Business rates devolution is theoretically cost neutral. However, most reforms to the local government finance system create winners and losers, but the impact of this cannot reliably be estimated at this point, all the more so since the very recent announcement that the system will be based on 75% devolution rather than 100%, with no policy detail as yet available on the impact of this.
- The needs review is currently out for consultation and will change the weighting of the factors (deprivation, population density and so on) used to allocate government funding in 2020/21. The vital link with business rates is that this will determine the 'baseline' level of need and therefore determine the level of baseline business rates we retain. This will therefore create shifts in the pattern of funding and so the impact is likely to be substantial but which cannot reliably be forecast.

12.3 The total savings target is £30m for 2019/20 and 2020/21 as set out above. The accuracy of this is probably at best +/- 20%, and wider variations are entirely plausible. The actual figure required will not be known for at least a year, once the local government finance reforms are further forward.

12.4 The 2019/20 budget proposals will need to be consulted upon by autumn 2018, leading in to a February 2019 budget setting meeting at Council. It is therefore proposed to develop and consult on budget proposals for 2019/20 and 2020/21 after the elections in May 2018.

13.0 Financial Implications

- 13.1 The council's financial position has been set out in this report and Members are under a legal obligation to set a balanced budget. In doing so they are obliged, under normal administrative principles, to take into account the various relevant factors, particularly in respect of consultation and equalities. In doing so Members are, of course, entitled to exercise their political judgement, paying regard to the relevant factors rather than being absolutely determined by them.
- 13.2 The budget report sets out a comprehensive picture of the council's finances over the short, medium and long term to assist in the decision making process in setting the 2018/19 budget and the forward looking business plans.
- 13.3 Overall, expenditure in 2017/18 is expected to be contained within the agreed budgets, although there are significant variances within that overall result. In consequence, the general reserve is expected to be retained at £12m with no need for amendment. This level is relatively low for London, but is not unreasonable.
- 13.4 In considering the budget report, a key consideration should be the delivery of the saving programme as it present substantial management challenges, particularly around procurement and civic enterprise savings. Again, considerable management attention has been and is being devoted to ensure that these can be delivered, but it is important to stress again the inherent risks in delivering such a large and complex programme.
- 13.5 That said, the budget now proposed is realistic and affordable, albeit challenging. The increases in council tax set out, if agreed, will generate significant additional revenue over time, minimising the number of difficult new decisions about funding for specific services to be proposed. If agreed, this budget would provide for affordable services in 2018/19, but a further gap of nearly £30m remains in between 2019/20 and 2020/21. Building on the outcome based reviews, the digital strategy and other initiatives to start to close this gap quickly will be an important future consideration.
- 13.6 Formally, this section of the report is the report of the section 151 officer to which the council is required by section 25 of the Local Government Act 2003 to have regard confirming that if the budget as proposed were to be agreed the estimates made for the purposes of the calculations are robust and the proposed financial reserves are adequate.

14.0 Legal Implications

- 14.1 These are set out in Appendix G.

15.0 Equality Implications

- 15.1 Section 7 of this report provides more details of the approach to complying with the Equalities Act 2010 and the outcome of equalities impact assessments.

16.0 Consultation with Ward Members and Stakeholders

16.1 Section 7 of this report provides more details of the statutory consultation process with regards to setting the 2018/19 budget.

17.0 Human Resources

17.1 The impact of the budget proposals are outlined in Appendix B. Of the proposals identified within this appendix there are some where there is a potential impact on staffing but it is anticipated that fewer than twenty staff could be subject to redundancy.

17.2 The Council will apply its Managing Change Policy and Procedure in the application of all restructuring arrangements which have an impact on staff, consulting with staff and trade union representatives accordingly.

Report sign off:

Conrad Hall
Chief Finance Officer