	Cabinet 15 October 2018
	Report from the Chief Finance Officer
Draft Budget Proposals 2019/20 – 2020/21	

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt:	Open
No. of Appendices:	Five appendices: <ul style="list-style-type: none"> • Budget Proposals Recommended • Budget Proposals Difficult • Budget Proposals Very Difficult • Budget Proposals Most Difficult • Budget Templates
Background Papers:	N/A
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1.0 Purpose of the Report

- 1.1. This report sets out for consultation and scrutiny the draft budget proposals for 2019/20 and 2020/21. Subject to the results of these processes it is envisaged that these proposals, along with an equalities assessment, would then form the basis of the budget to be agreed at the Full Council meeting of February 2019. The report also sets out the overall financial position facing the Council for the

next four years and highlights the significant risks, issues and uncertainties. It also sets out the approach to consultation with residents, businesses and other key stakeholders.

- 1.2. As set out in the report, changes to the local government finance system make it difficult to place an exact value on the budget gap faced over the next few years. Officers are working to a broad brush assumption that net expenditure on services will need to be reduced by around £40m in order to balance the budget over the lifetime of this Administration. However, it will not be until spring 2019 at the earliest, with the expected publication of the Spending Review, that this figure can be firmed up, and not until the Fair Funding review in autumn 2019 before it can be regarded as truly authoritative.
- 1.3. That said, there is no credible interpretation of the economic data and central government's clear prioritisation of other public services (such as the NHS) over local government that would leave the Council with anything less than substantial reductions to expenditure and hence services, and in the worst-case scenario the £40m figure may prove to be an under estimate. In the event that significantly greater reductions are required the Council may be required to consider a 'core services' offer. Accordingly, this draft budget seeks to set a reasonable and proportionate course. Proposals of £26.2m have been identified to be consulted upon, with a working assumption that around £20m of these would need to be agreed in order to balance the budgets for 2019/20 and 2020/21. These proposals are summarised in Appendices A through to D, inclusive. This represents a clear prioritisation, from proposals in Appendix A, which are considered to be highly likely to be included in the final budget, to those in Appendix D, which are recognised to be extremely challenging and potentially controversial. However, this prioritisation does not imply pre-determination of the consultation exercise now proposed, which is an open process in which all views will be taken into account. It is also important to stress that the proposals included in the draft budget add up to £6.2m more than the estimated savings requirement for the next two years, and that there will therefore be the opportunity for nearly one quarter of the proposals (by value) to be removed from the final budget, if that is what the Council eventually determines.
- 1.4. Well-run councils like Brent always seek to set their budgets for at least the next two years, bearing in mind that although the Council seeks to set its business plans for at least two years the legal framework for local authority budget setting is essentially an annual one. This transparent approach allows residents to understand what changes and reductions to service provision are planned, and also gives sufficient certainty to enable effective management of the necessary changes. In the unlikely event that the requirements for 2019/20 and 2020/21 turn out to be less than the approximately £20m assumed at this stage then, subject of course to the consultation and scrutiny processes set out in this report, this should still be regarded as the minimum amount to be agreed, as this would give the Council a head-start on its business planning for 2021/22.
- 1.5. It is also important to stress the nature of the savings being proposed. Inevitably, in this financial climate, they involve tough choices, and some would

only ever be implemented in a worst-case scenario. That said, those proposals in Appendix A are considered to be capable of being implemented with relatively little impact on service delivery. In some cases they simply represent management efficiencies and services ought not to be impacted at all.

- 1.6. Savings in Appendix B are recognised to be more difficult. They will lead to an impact on service delivery albeit that it is considered that this can be managed and mitigated. The proposals in Appendix C and, especially, those in Appendix D, are very difficult. Following the consultation and scrutiny processes, the Council will need to take the views expressed carefully into account in order to manage the demanding task of balancing its legal fiduciary responsibilities with the other legal obligations that go with providing the full range of local authority services and complying with the council's public sector equality duties.
- 1.7. In some cases the proposals set out in this report could, if agreed, be implemented fairly quickly. Officers have sought to profile savings to 2019/20 rather than 2020/21 unless there are insurmountable managerial hurdles (for example if a saving could only be delivered as a result of a re-tendering exercise and the relevant contract does not expire until later in 2019/20). In addition, the most difficult proposals, including all of those in Appendix D, are profiled for 2020/21. This will allow time to design appropriate mitigation or other measures prior to implementation should the decision in light of the results of the consultation process now proposed be to adopt these proposals in principle (again bearing in mind that the legal framework for local authority budget setting is essentially an annual one).
- 1.8. Clearly, the financial context is exceptionally challenging. However, in developing draft proposals for consultation in even the most sensitive areas of service provision managers have sought to identify creative ways to achieve efficiencies without damaging service provision. For example, it is proposed to create a Family Hub model for very early years' provision, building on the successful prototype approach to other service provisions in Harlesden. This will consolidate the number of sites from which the services provided through Children's Centres are delivered, and enhance the services provided at those consolidated sites. This will save £1.5m and is considered to be a more focused way of ensuring that high quality services reach those most in need. This is merely one example, but is intended to be illustrative of the approach taken to balancing the financial challenges with the other lawful duties to ensure that appropriate services are provided, and views will be sought throughout the consultation process.
- 1.9. The process following this Cabinet meeting is:
 - These proposals, together with any changes made by Cabinet, will form the basis of consultation between October 2018 and January 2019 with local residents, businesses and other key stakeholders;
 - The three scrutiny committees will review the budget proposals and report accordingly;
 - In November the General purposes committee will review the calculation of the council tax base; and

- After consultation, a budget report will be presented for Cabinet to recommend a final budget and council tax to the February 2019 Council meeting.

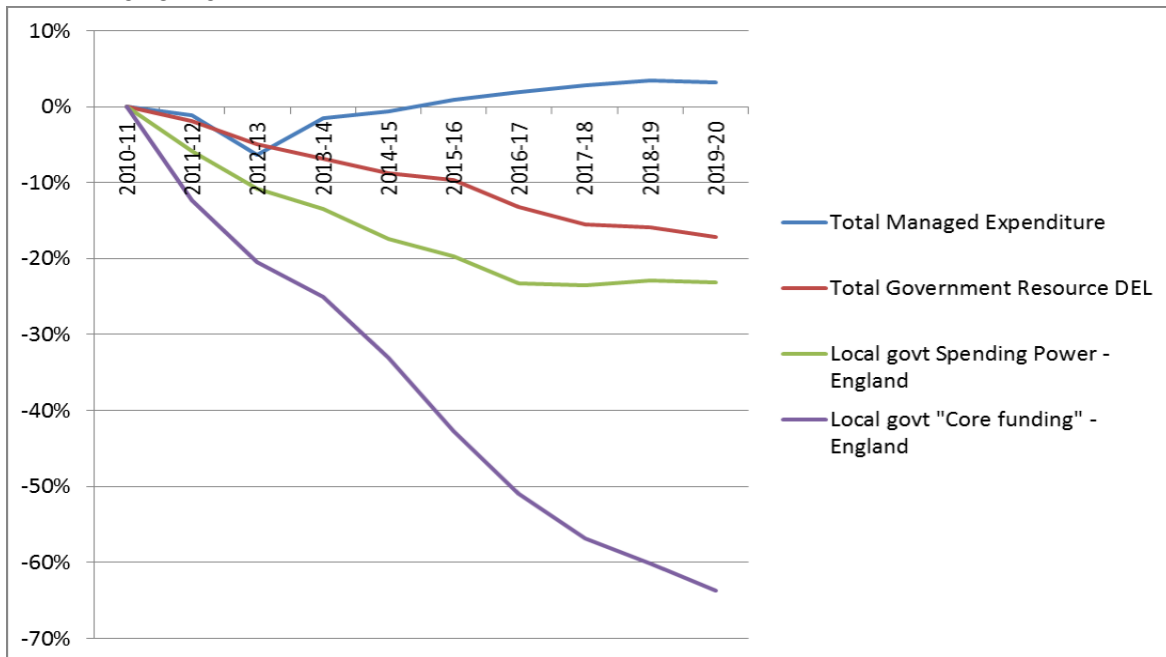
2.0 Recommendations

- 2.1 That Cabinet notes the overall financial position.
- 2.2 That Cabinet agrees to consult on the budget proposals as set out in Appendices A, B, C, D.
- 2.3 That Cabinet note that more detailed information on each of the budget proposals referred to above is set out in Appendix E.
- 2.4 That Cabinet agrees to consult on council tax increases of 4.99% in 2019/20, subject to the legislative uncertainty set out in paragraph 5.10, and 3.99% in 2020/21.
- 2.5 That Cabinet endorses the approach to consultation and scrutiny between October 2018 and January 2019, as set out in section eight of this report.
- 2.6 That Cabinet endorses the changes to the technical budget assumptions underpinning the budget as set out throughout the report.
- 2.7 That Cabinet agrees the estimated Collection Fund balance relating to Council Tax for 2019/20 as a surplus of £0.9m (Brent's share being £0.8m) and note the current estimated balance relating to NNDR for 2019/20 as zero (no surplus or deficit) as set out in section seven.
- 2.8 That Cabinet note the position on the School funding reform proposals, as set out in section nine.
- 2.9 That Cabinet note the budget proposals for the Housing Revenue Account, as set out in section ten.

3.0 Current Financial Context

- 3.1 As set out in the July Finance Review Cabinet report, local government has faced an extremely challenging financial outlook following a prolonged period of austerity as well as disproportionate growth in demand for key services. There is a growing level of uncertainty as the cliff edge of 2020 approaches – marking the end of the current Spending Review period and start of the new 75% business rates retention scheme. Chart 1 overleaf compares the like-for-like cumulative change in core funding with total public and departmental spending over the decade to 2019/20. Core funding from central government will have fallen by 63% in real terms, local government revenue “spending power” (as defined by government) will have fallen by 23%, while overall public spending will have increased marginally over the same period.

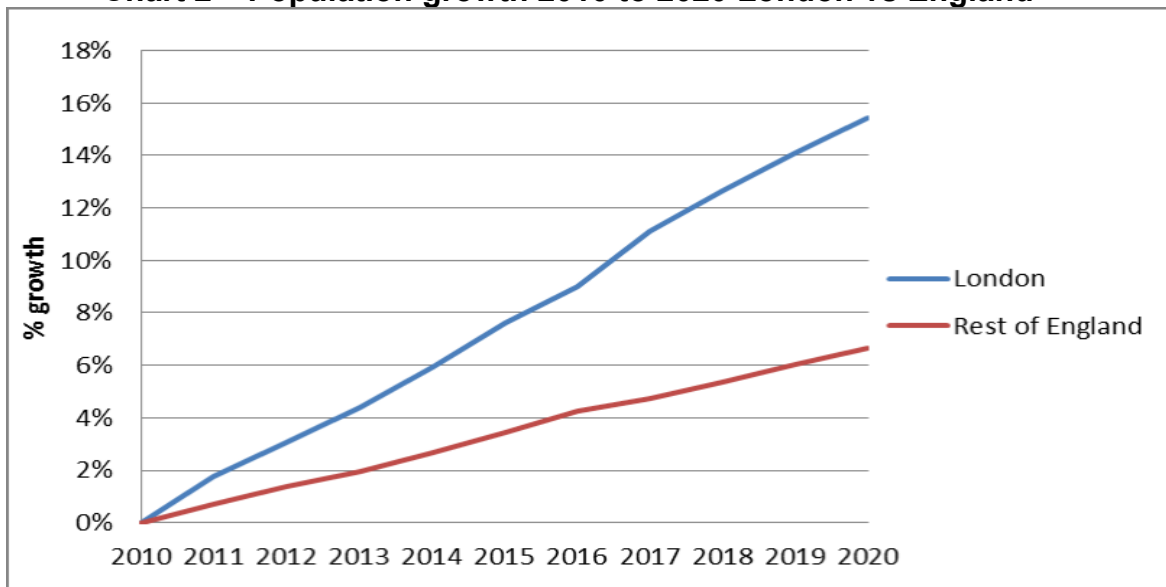
Chart 1 - Cumulative like-for-like change in public spending - 2010-11 to 2019-20



Source: HMT (Budgets/Autumn Statements since 2011); DCLG (LGF Settlements 2011-12 to 2018-19)

3.2 At the same time, local government continues to experience growth in demand for services, driven by significant demographic change. Between 2010 and 2020 London’s population will have risen by over 15%, more than double the rate of growth across the rest of England (7%). As population is fixed within the current funding distribution, this growth has compounded the effect of sustained funding reductions.

Chart 2 – Population growth 2010 to 2020 London vs England



Source: ONS, Mid-Year Estimates (to 2016) and Sub-National Population Projections (from 2016 onwards)

3.3 This disproportionate growth is set to continue, with London’s population forecast to increase by 21% (to over 11 million) between now and 2039, compared with just 11% across the rest of England. These disproportionate

increases are forecast across all of the major age cohorts: the child population, working age adults and those over 65.

- 3.4 These pressures are being felt across the sector. The profile of the debate over the financial resilience and sustainability of the sector has grown since the start of 2018. Following Northamptonshire County Council's Section 114 notice, East Sussex County Council and Birmingham City Council have also emerged as Local Authorities that have had their financial position under scrutiny. East Sussex County Council has had to set out plans to strip back services to the "legal minimum" amid central government intervention. Northamptonshire County Council is also largely under central government control and has been forced to impose spending controls twice in six months in light of two section 114 notices being served. Finally, Birmingham City Council has been criticised by its auditors for depleting reserves in order to balance its budget. These examples further exemplify the financial pressures that local authorities are under and the need for a long term solution to council funding as there is a risk that more authorities are likely to be forced to implement 'core offers' like the ones issued by Northamptonshire and East Sussex.
- 3.5 Brent has managed its finances well since the start of austerity by adopting a forward-looking financial strategy based on taking difficult decisions early, allowing time for implementation. This has led to total savings of £164 million being delivered since 2010.
- 3.6 As reported to Cabinet in July, the next 18 months will see three major sector specific events that will change the amount of funding every local authority will receive from April 2020, and of course in this period the UK is scheduled to leave the EU, under terms that are still not clear and it is consequently difficult to assess the impact of this on the sector.
1. The Spending Review. This is currently expected in spring 2019 and will set the overall quantum of central government funding to local government. The time period covered is unknown but is expected to be up to three years.
 2. The Fair Funding Review. This will determine the new funding baselines for the start of the 75% business rates retention scheme from April 2020 and therefore determine the distribution of core central government funding to local government.
 3. 75% business rates retention. This will involve, from April 2020, establishing new business rates baselines, setting new parameters regarding the level of risk/reward and therefore, the ability of each local authority to benefit from locally generated growth.
- 3.7 In addition to the above when the long delayed green paper on social care funding is published it may become possible to assess the longer-term impact on adult social care budgets. These represent nearly a third of Brent's net budget and so the implications of these plans could have a significant impact on our medium term funding outlook, but it is not yet possible to predict this with any reasonable confidence

3.8 With regards to understanding the impact of Brexit, given the current uncertainty as to how the Government will respond to the choices and trade-offs facing it during the negotiations, there is still no meaningful basis for predicting a precise outcome which could be relied upon. Moreover, even if the outcome of the negotiations were predictable, its impact on the economy and the public finances would still be uncertain, and to translate those factors down to individual local authority level is simply not possible.

4.0 London Business Rates Retention Pilot Pool

4.1 The pilot pool has operated for only around six months at the date of drafting this report. The latest forecast from London Councils is that the total additional benefit (for London) of the pool is likely to be of the order of £349m in 2018/19, of which £7m would accrue to Brent on a one-off basis. The first actual data to confirm, or otherwise, these projections is likely to come in late 2018, through the technical NNDR2 return, which sets out data on business rates due and collected.

4.2 Provided this return broadly supports the earlier London Councils forecasts it would then be reasonable to start making provisional allocations of the resources available. As the pilot is limited to one year (although it may be extended for a second year) any allocations could not be to cover ongoing expenditure, but one-off projects and/or capital expenditure would be reasonable.

4.3 As part of the pilot pool, 15% of the net financial benefit, approximately £52m, is to be reserved for strategic investment, to be spent on projects that:

- contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
- leverage additional investment funding from other private or public sources; and
- have broad support across London government in accordance with the agreed governance process.

4.4 Following an evaluation process undertaken by the City of London Corporation (the Lead Authority), £46.8m of funds have been recommended, of which £11.3m relates to projects submitted via the West London Alliance. These include a project to deliver a productivity and skills programme for West London to support individuals and businesses and a major investment in digital infrastructure to provide high speed fibre services across West London. The total package of bids is intended to directly grow London's business rates by providing new or refurbished commercial space, as well as ones which will indirectly generate growth by providing transport and digital infrastructure, supporting employment and businesses, and creating frameworks for development

4.5 London Councils are currently in discussions with MHCLG to negotiate the continuation of the London Pilot into 2019/20 and it is expected that the Leaders' committee and the Mayor will make a decision over the autumn.

5.0 Key Budget Assumptions

5.1 As reported to Cabinet in July 2018, officers' best estimate of the budget gap was £30m between 2019/20 and 2020/21. This was an estimate based on the limited information available at the time as 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. This is further compounded by the significant changes to local government funding proposed from April 2020. The actual figure required will not be known for at least a year, once the local government finance reforms are further forward.

5.2 Over the summer, various updates to technical budget assumptions have taken place, including extending the budget model and financing assumptions to cover the entire four year period of this Administration, from 2019/20 to 2022/23, in line with normal best practice. The outcome of these changes is set out in the table below and described in more detail in the following paragraphs.

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Expenditure				
Assumed Budget b/f before in year growth and savings	266.8	274.9	280.6	287.2
Demographic Growth	3.5	3.5	3.5	3.5
Other Growth	15.2	13.5	13.5	13.5
Technical budget adjustments	(0.3)	0	(0.5)	(0.5)
Total Expenditure	285.2	291.9	297.1	303.6
Income				
Revenue Support Grant	24.5	21.2	18.4	16.0
Specific Grants	32.9	31.9	30.6	29.8
Total Central Government Funding	57.4	53.1	49.0	45.8
Council Tax	123.8	131.9	140.6	149.9
Business Rates	93.7	95.6	97.5	99.5
Total funding from residents and businesses	217.5	227.5	238.1	249.4
Total Income	274.9	280.6	287.1	295.2
Savings required	10.3	11.3	10.0	8.4

5.3 Overall, based on the budget assumptions set out in this in report, and subject to consultation and scrutiny, savings of £40m are required to balance the budget over the four years of this Administration. For the period 2019/20 and 2020/21, savings of around £20m will be required. (The formal modelling shows a slightly higher figure at this stage but given the current level of uncertainty it will be satisfactory to work towards the £20m figure at this stage).

Changes to Technical budget assumptions since July 2018

- 5.4 Business rates are a tax determined by central government, not local government. Brent (the billing authority) has no say in the calculation of the amount of rates to be charged but is required to collect business rates on behalf of central government and the Greater London Authority having retained a proportion of itself in accordance with the Business rates retention arrangements decided by the Government. Total retained income from business rates in Brent has been growing at an average of 2% per annum over the last three years and this trend is expected to continue. This will yield additional income of £1.9m into the base budget each year. This income would have been expected even if we had not participated in the London pilot pool and therefore it is appropriate to build in to the base budget. Participation in the pilot pool, as mentioned in section five of this report, will generate additional income for the council in 2018/19. However this is one off and therefore not appropriate to build into the ongoing budget assumptions.
- 5.5 There is a risk attached to this assumption should the impact of Brexit have a negative consequence on businesses in Brent. However, as mentioned earlier in the report, at this stage there is still considerable uncertainty as to how the Government will respond to the choices and trade-offs facing it during the negotiations which means there is no meaningful basis for predicting a precise outcome which could be relied upon. That being said, it is expected that the £46.8m investment being made in London via the Strategic Investment Pot will, over time, result in a sustained increase in business rates income, of which Brent would receive a share of the growth under the principles of the business rates retention scheme. Therefore, on balance, it is deemed acceptable to expect the forecast level of business rates income to continue.
- 5.6 Revenue Support Grant (RSG) has reduced by over 56% since the beginning of the four year settlement period and in 2019/20 £24.5m is expected. Whilst funding is relatively certain for 2019/20 there are no guarantees post April 2020 in terms of what, if anything, will replace RSG. For the purpose of budget modelling a year on year 13% reduction in RSG has been assumed. This is slightly more pessimistic than previous estimates, based on the growing concern that the Fair Funding review will lead to resources transferring away from London. This assumption is deemed reasonable as whatever the outcome of the Fair Funding review the government has indicated any grant reductions will be phased over time to prevent any cliff edges from April 2020, and is still less than the rate of reduction over the period to 2019/20.
- 5.7 The council tax base is assumed to grow at 2.5% per year. This is based on the average growth in households over the past three years as well as analysis of the number of approved planning applications for residential properties in the borough, in particular in the Wembley Park area. Growth in the tax base contributes a significant proportion (38%) of the total growth in council tax income, excluding the Greater London Authority share.
- 5.8 Under current legislation the maximum increase in council tax is 3.99%, unless a referendum is conducted. Of this, 1.99% is for general inflation and 2% is for

adult social care. As reported to Cabinet in July 2018, the current budget proposals assume that council tax will rise by 3.99% per annum. Legally, separate decisions on council tax will still be required at each of the budget setting meetings of the full council in February 2019 and February 2020.

- 5.9 As part of the 2018/19 provisional local government finance settlement, the government unexpectedly increased the 'referendum limit' for council tax by 1% which meant council tax could be increased by up to 4.99% without a referendum. 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 the option was taken. This option was presented as a one off opportunity and therefore Government policy from 2019/20, including that of the adult social care precept, is currently unknown.
- 5.10 However, on 24 July 2018 the government published a technical consultation that indicated that it was minded to apply the same referendum principles in 2019/20 that applied to 2018/19. The outcome of this consultation will not be known until the provisional local government finance settlement is published in December 2018. That being said, it is widely expected that government will apply the same referendum principles again in 2019/20 ahead of the outcome of the Fair Funding Review in 2020/21. Given the significant funding pressures described earlier in the report and the difficult proposals being considered to balance the budget, it is proposed to consult on increasing Council Tax by 4.99% in 2019/20 ahead of the outcome of the provisional local government finance settlement. This will yield a further £1.2m of recurring income from 2019/20. If the outcome of the government's consultation maintains the existing policy of a maximum increase of 3.99% it is proposed revert back to the previous policy to avoid holding a referendum. However, if this situation arises £1.2m will have to be added to the overall budget gap and consequently further savings of this amount will need to be identified.
- 5.11 The Council is due to receive £11.6m in 2019/20 through the Improved Better Care Fund (IBCF) grant. This funding has conditions attached with regards to ensuring it is spent on adult social care needs, supporting the local care market and that it relieves pressure on the NHS, particularly with respect to delayed transfers of care. A further condition is that spending plans must be agreed with local Clinical Commissioning Groups. This was secured as part of work which took place prior to the Better Care Fund Plan that was submitted to NHS England in September 2017.
- 5.12 This grant represents a significant investment in social care in the short term, but when it was announced the government explicitly did not build them into the long term funding baseline. Therefore, in theory, Brent's allocation in 2020/21 is nil, like all other local authorities. This outcome has been reported as being highly unlikely given the substantial investment since 2017 and the current pressures being experienced within the NHS. As part of the 2017/18 budget £1.8m was previously built in to the Council's future budget assumptions in respect of the IBCF grant. As part of the draft budget being proposed in this

report a further £6m has been assumed to continue to help address spending pressures arising from the increased demands and costs of providing adults social care.

- 5.13 The table below shows the net impact of these changes and summarises other income projections.

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Revenue Support Grant	24.5	21.2	18.4	16.0
Specific Grants	32.9	31.9	30.6	29.8
Total Central Government Funding	57.4	53.1	49.0	45.8
Council Tax	123.8	131.9	140.6	149.9
Retained Business Rates	93.7	95.6	97.5	99.5
Total Funding from residents and businesses	217.5	227.5	238.1	249.4
Total Funding	274.9	280.6	287.1	295.2

Expenditure pressures

- 5.14 As mentioned in section 3.3, London's population is forecast to increase by 21% between now and 2039 (broadly 1% per annum), compared with just 11% across the rest of England. In terms of Brent, focussing on the four year period of this Administration, the population is projected to grow by approximately 3% (0.8% per annum) according to the latest Greater London Authority's population projections. Within this there are particularly sharp rises in the 65-84 year group (2.5% per annum) and the over 85 year group (4.6% per annum). The numbers in these two groups are significant determinants of the level of spending on adult social care. Some of this population growth has already taken place and has therefore been factored in to the council's existing budgets. The table below sets out the additional costs expected to be incurred from 2019/20 across a number of services as a result of demographic changes. For the avoidance of doubt, this is the additional cost of providing the same level of services caused by a rising population. It follows that recognising this in the budget is a technical assumption, albeit an important one, and does not imply any change in policy choices. These spending pressures and the impact on the overall budget are under regular review but have remained broadly consistent since 2017/18 and are generally accepted as being reliable.

Department	Service Area	Marginal growth per annum £m	Basis
Regeneration & Environment	Refuse Collection	0.1	0.8% growth in overall population
Regeneration & Environment	Public Realm (excluding Refuse Collection)	0.2	0.8% growth in overall population
Children and Young People	Children's social care	0.5	0.1% growth in 0-5 years; 0.6% growth in 0-25 years; 2.4% growth in 10-15 years
Community Well Being	Learning Disabilities, Mental Health and Physical disabilities (18-65)	0.4	0.6% growth in population 18-65 years
Community Well Being	Older People (65+) Non Home Care	1.0	2.5% growth in population 65-84 years; 4.6% growth in population 85+
Community Well Being	Older People (65+) Home Care	0.6	2.5% growth in population 65-84 years; 4.6% growth in population 85+
Community Well Being	Housing - Temporary Accommodation	0.5	Projected growth in temporary accommodation costs
Resources	Customer Services	0.1	0.9% growth in population over 18
Resources	Legal services	0.1	Additional caseload caused by above, principally children's social care and adult social care
Total demographic growth		3.5	

5.15 The budget also needs to recognise the impact of inflation on goods and services, especially where this is contractually obliged in major contracts. General inflation on contracts is assumed to average 2%, which is estimated to cost £3.5m per annum following detailed financial analysis of average spend in the last two years as well taking into account service specific contractually obliged inflation. These figures are to some extent estimates based on available data at the time, and therefore there is some risk attached to them. Inflation has increased slightly recently (CPI was 2.5% in August 2018) primarily as a result of the effects of sterling's past depreciation. As a result the Bank of England increased interest rates to 0.75% in August and commented that over the medium term they expect inflation to return to the 2% target and that any future increases in interest rates will be limited and gradual.

- 5.16 The National Joint Council pay agreement for 2018-20 includes the introduction of a new pay spine on 1 April 2019 and the majority of employees (those on salaries starting at £19,430 per annum) received an uplift of 2 per cent on 1 April 2018 and a further 2 per cent will be received on 1 April 2019. Those on lower salaries will receive higher increases. Financial modelling on the impact of these changes, which includes mapping the current pay spine to the new spine and allowing for grade drift over the next two years, shows that £2.1m will be added to total staffing costs. In addition, the cost of paying providers for the uplift caused by the annual increases to bring the national living wage up to 60% of median earnings by 2020 will add £0.4m to the adult social care budget each year.
- 5.17 The Council's largest requirement for passenger transport comes from the provision of home to school transport for children and young people with Special Educational Needs (SEN) who have a statement requiring the provision of a specific type of education, normally at a special school or unit catering for their particular educational need. Where the statement identifies a need for the learner to be transported to and from school, the Authority has a statutory duty to provide the required transport. In London, the number of SEN pupils has increased by 10 per cent since 2013/14, a higher rate of growth compared to the rest of England. In Brent, passenger numbers for the over the last 2 years have increased by 11.4% and 22% respectively. The projection going forwards is that there will be an estimated 20% annual net increase in passenger numbers and £0.8m per annum has been assumed as the need to cover the rate of growth expected.
- 5.18 As set out on the forecast report on this agenda there is a significant pressure against the Housing Association Lease Scheme budget. As this is being offset in 2018/19 only through one-off funding, this underlying overspend will recur into 2019/20 and beyond. On current information this is expected to add £1.6m to the funding pressure in 2019/20, and hence to the budget gap.
- 5.19 The table overleaf gives a summary of the budgeted spend and financing of the capital programme. The largest proportion of funding in the programme comes from borrowing, at 36% followed by CIL at 28%. Internal funding from capital receipts make up a further 14% and is largely generated from the sale of residential units that will be built as part of a development schemes such as South Kilburn. The remainder will come from various grants and other income sources.

	2018-19	2019-20	2020-21	Total
Boards				
Corporate Landlord	6.5	2.2	0.1	8.9
Regeneration	9.4	8.9	3.1	21.4
South Kilburn	18.3	25.5	24.2	67.9
Public Realm	22.0	7.3	5.7	34.9
Schools	28.7	14.6	14.4	57.7
Housing Care & Investment	20.1	58.3	27.9	106.3
Housing Revenue Account	40.8	57.0	23.5	121.3
I4B	34.0	21.6	0.0	55.6
Pipeline	19.9	169.4	172.2	361.5
Total Estimates	199.8	364.7	271.0	835.5
Financing				
Grants & Other Contributions	32.9	17.3	16.1	66.2
S106 & CIL	40.8	111.2	78.0	230.0
Capital Receipts	39.8	43.6	31.7	115.1
Reserves	32.3	31.1	0.1	63.5
Major Repairs Allowance	12.5	17.4	15.2	45.1
Revenue Contribution	3.1	5.3	3.5	11.9
Prudential Borrowing	38.3	138.8	126.5	303.6
Total Financing	199.8	364.7	271.0	835.5

- 5.20 As set out in the capital programme, the Council is planning to borrow externally up to £303.6m over the next three years. This borrowing will have a direct impact on revenue in the form of interest payments, therefore growth of £1m per annum has been incorporated into the revenue capital financing budget.
- 5.21 Following the CIPFA/LASAAC clarification statement in May, the Council dealt with the technical accounting charges for its market loans on a prudent basis in closing the 2017/18 accounts. This enables it now to anticipate the gradual reversal of these charges, estimated at c£0.2m per annum, which will therefore act to trim the savings requirement and has been incorporated in to the £1m growth assumption mentioned above.
- 5.22 All other growth assumptions are unchanged from that reported to Cabinet in July. The table below summarises the changes described above and shows the total growth assumptions built into the overall budget assumptions. This can also be referred to as the 'cost of doing business', i.e. this is the amount by which the budget would have to grow each and every year if all other things remained equal.

Assumption	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	Description
Demography	3.5	3.5	3.5	3.5	Adult Social Care (£2m), Housing (£0.5m), Children's Social Care (£0.5m), Public Realm (£0.3m), Other (£0.2m)
Payroll	2.1	2.1	2.1	2.1	Based on 2% pay award and new pay spine
London Living Wage	1.0	1.0	1.0	1.0	Assumed average annual cost of making more contracts LLW compliant
Contracts	5.9	5.9	5.9	5.9	Primarily based on 2% inflation, known contractual commitments and service specific inflation
Transport	1.5	1.5	1.5	1.5	Freedom passes (£0.7m) and transporting children with Special Educational Needs (£0.8m)
Technical	1.1	1.0	1.0	1.0	Pensions, levies (e.g. WLWA) and other technical items
Allowance for uncertainty	1.0	1.0	1.0	1.0	Need to have some insurance against non-delivery of savings and facilitates adjusting the overall budget in response to consultation
Capital financing	1.0	1.0	1.0	1.0	Interest and debt repayment costs for capital programme
HALS	1.6	0	0	0	Additional cost of maintaining the Housing Association Lease Scheme
Total Growth	18.7	17.0	17.0	17.0	

6.0 Calculation of savings targets and draft budget proposals

6.1 The additional savings required are the difference between the council's anticipated total expenditure and forecast total income, as shown in the table overleaf. Taking account of the updates and changes to planning assumptions described in section five the revised budget gap is now estimated at £40m over the next four years. As set out earlier in the report, until the Spending Review is published and until the direction of the Fair Funding review is clearer this estimate will be subject to considerable change or at least uncertainty.

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Expenditure				
Assumed Budget b/f before in year growth and savings	266.8	274.9	280.6	287.1
Demographic Growth	3.5	3.5	3.5	3.5
Other Growth	15.2	13.5	13.5	13.5
Technical budget adjustments	(0.3)	0	(0.5)	(0.5)
Total Expenditure	285.2	291.9	297.1	303.6
Income				
Revenue Support Grant	24.5	21.2	18.4	16.0
Specific Grants	32.9	31.9	30.6	29.8
Total Central Government Funding	57.4	53.1	49.0	45.8
Council Tax	123.8	131.9	140.6	149.9
Business Rates	93.7	95.6	97.5	99.5
Total funding from residents and businesses	217.5	227.5	238.1	249.4
Total Income	274.9	280.6	287.1	295.2
Savings required	10.3	11.3	10.0	8.4

Draft budget proposals

- 6.2 As part of the budget setting process a number of savings proposals have been developed in order to deliver the savings required and balance the overall budget. Throughout the process, in producing the draft budget proposals, the emphasis continues to be on delivering efficiency measures, cost reductions and income generation with a view to protecting front line services and council

priorities as much as possible. The proposals have been categorised as follows:

Appendix A: Recommended budget proposals that have relatively minor impact on residents, business and other stakeholders. Typically these proposals represent generating additional income, general efficiencies in order to reduce expenditure and transformation programmes in order to deliver services within a reduced budget envelope.

Appendix B: These proposals are considered to be 'difficult' in that they will have a direct impact on residents, businesses, the voluntary sector and other key stakeholders. Typically these proposals represent a service reduction or a transformation in the way in which services are delivered.

Appendix C: These proposals are considered to be 'very difficult' as they represent a greater reduction in key council services and will have a greater impact on key recipients of council services, including vulnerable clients.

Appendix D: These proposals are considered to be the 'most difficult' as they represent a significant reduction in key council services, including to the most vulnerable residents in the borough.

6.3 The table below shows a summary of the budget proposals described above by department for the period 2019/20 to 2020/21. The Council Management Team have reviewed the proposals to ensure the plans are realistic and deliverable. Detailed budget templates have been produced, attached as Appendix E, that set out more details of each proposal while providing the overall current budget context, the key risks and mitigations and the equalities impact where relevant.

Summary of savings:

	2019/20 £m	2020/21 £m	Total £m
Appendix A	5.7	4.6	10.3
Appendix B	3.7	3.7	7.4
Appendix C	1.2	0.5	1.7
Appendix D	0	6.8	6.8
Total Savings	10.6	15.6	26.2

Summary of savings by department:

	2019/20 £m	2020/21 £m	Total £m
Community Wellbeing	3.0	5.6	8.6
Children & Young People	2.0	3.4	5.4
Performance, Policy & Partnerships	0.8	1.3	2.1
Resources	1.2	4.3	5.5
Regeneration & Environment	3.6	1.0	4.6
Total Savings	10.6	15.6	26.2

- 6.4 Theoretically, there are sufficient proposals within Appendices A-D to balance the budget for 2019/20 and 2020/21 while providing some degree of choice, following consultation and scrutiny, as to which proposals are taken forward and not.
- 6.5 Some of the proposals in Appendix A have been highlighted to show that they have either already been implemented or are planned to be implemented in-year and therefore do not form part of this formal consultation process. The nature of the proposals are such that public consultation is not required. The proposals have been included in the report and appendices in the interests of full transparency and so that a full picture of how reductions in the budget for future years are being achieved can be seen.
- 6.6 It should be noted that this report reflects the position at this point in the budget preparation and these numbers will change as the budget develops over the next two months. We also await confirmation of the Local Government Finance Settlement. If there are any material changes announced by Government these will be taken into account within the budget presented Cabinet in February 2019.

7.0 Collection Fund

- 7.1 As part of the Council Tax setting process for 2019/20 the Council is required to estimate the amount of any surplus or deficit on the Collection Fund as at 31 March 2019 and how it is shared amongst the constituent precepting bodies and Central Government. This must be done by 15 January 2019 in relation to Council Tax, and this report asks Members to approve the estimated balance for both Council Tax and Business Rates (NNDR).

Council Tax

- 7.2 Income from Council Tax is paid into the 'Collection Fund'. Brent and the Greater London Authority (GLA) make charges (formally known as 'precepts') on this fund to finance their budgets. If the eventual collection of Council Tax is

greater than precepts on the collection fund, taking the cumulative position since the introduction of Council Tax in 1993, a surplus will be generated. If the reverse happens, there will be a deficit. Any surplus or deficit is shared between Brent and the GLA. It is normal and proper practice to estimate these surpluses or deficits in setting the budget and to make distributions to the preceptors, or to require contributions from them, according to those estimates.

- 7.3 The Council's 2017/18 audited accounts reported a surplus of £6.0m (Brent's share £4.8m) on the Council Tax Collection Fund. The latest review of the Fund indicates that a surplus on Council Tax of £0.9m can be declared for 2018/19, where the balance will be shared between the Council (£0.8m) and the Greater London Authority (£0.1m) in proportion to their 2018/19 Band D council tax charges. This technical surplus relates to council tax due on or before 31 March 2018, where the council has been more effective than previously assumed in collecting arrears, and also reflects collection performance of debts relating to 2017/18, and an increase in the net collectable figure during 2017/18.

Business Rates

- 7.4 Income from Business Rates is also paid into the 'Collection Fund' and then redistributed in accordance with agreed shares between the Brent, the GLA and central government. Previously these shares were 30%, 20% and 50% respectively. The implementation of the London pilot pool for business rates in 2018/19 changes this rationale with the removal of the central government share, however it has not yet been decided if the pilot will continue into 2019/20.
- 7.5 That said, whatever regime is entered in to, if the year-end income from NNDR is higher than estimated at the start of the year, a surplus would be declared, which would be shared in the agreed ratios. Therefore, if Brent had a surplus it would keep a percentage of this. If income was lower than anticipated, there would be a deficit to be shared in the same proportion (i.e. Brent would bear a percentage of the deficit).
- 7.6 The estimate for the income figure (or net rate yield) for 2019/20, and the surplus or deficit figure as at 31 March 2019 will be taken from the NNDR1 return to be submitted in January 2019. The Non Domestic Rating (Rates Retention) Regulations 2013 require that these figures be calculated and notified to preceptors (central government and the GLA) by 31 January, and the NNDR1 return is used to calculate the figures.
- 7.7 Estimating what the figures will be is complex, as there are many factors which can significantly affect the overall figure, including entitlement to reliefs and properties coming in to, or being taken out, of rating. The biggest uncertainty concerns revaluations arising from appeals against the Valuation Office Agency (VOA) determinations. These are very common and can lead to large refunds being backdated several years. Given these uncertainties, it is recommended that a forecast of no surplus or deficit is assumed at present.

8.0 Consultation

- 8.1 The council recognises consultation as a key part of policy formulation, and makes considerable effort to ensure that the views of residents, businesses and other key stakeholders are taken into account.
- 8.2 The council published an online budget simulator on 7 September 2018 to give residents the ability to set a balanced budget by determining their spending and income priorities for the year and leaving comments to explain their choices. The simulator will be open until 31 January 2019, and a summary of responses provided to date will be given at the Cabinet meeting (it would be impractical to do so in advance given the requirements for advance publication of reports).
- 8.3 In addition to the above, the following methods of consultation are proposed to be undertaken:

- A presentation at each of the five Brent Connects meetings, delivered by the Leader and supported by officers, followed by a question and answer session. Brent Connects is a well-established public consultation forum for local residents, businesses and other stakeholders with meetings spread across the borough.

It is proposed to attend a round of meetings scheduled for October as well as a round of meetings between January and February 2019 in order to maximise the amount of time spent on engaging with as many residents as possible.

The following Brent Connects meetings will be attended.

Brent Connects	Date	Date
Harlesden	16-Oct 2018	22-Jan 2019
Kingsbury and Kenton	29-Oct 2018	20-Feb 2019
Kilburn	30-Oct 2018	06-Feb 2019
Wembley	23-Oct 2018	29-Jan 2019
Willesden	17-Oct 2018	21-Jan 2019

- Online consultation. It is proposed to publish the detailed budget proposals on Brent's website, inviting comments and other feedback via the well-established consultation portal. Paper versions will be available on request.
- Consultation with local businesses. There are a number of business forums and associations that the Council regularly engages with that include a wide range of both small and large local businesses. These include the West London Business forum (a non-profit business leadership forum), the Federation of Small Businesses, the Town Centre Business Association and the Business Board.

- The local voluntary sector is closely engaged with Brent's communities and has considerable experience of the impact of the council's difficult choices against a background of funding reductions. Their role as part of the consultation process will also be crucial.
- As indicated in the templates in Appendix E, additional consultation with other groups and/or organisations will be undertaken in respect of some options being considered before they are presented to Cabinet and then Full Council for approval.

8.4 Legally, the results of consultation are something that Members must have due regard to, alongside other relevant considerations, when making decisions.

Scrutiny

8.5 The three scrutiny committees will review the proposals through their budget task group in 2018 in order to carry out the statutory scrutiny of the budget. Following this, the chair of the committee will present a report to Cabinet as part of the overall budget report.

Equalities Impact assessments

8.6 The Council has a duty to pay due regard to the need to eliminate unlawful discrimination and advance equality of opportunity and foster good relations between those who have a protected characteristic and those who don't when making decisions. This duty is set out in more detail in the Equality Implications section of this report. Each of the budget proposals attached in appendix E have been subject to equality impact assessments (EIA) to assess their potential or likely impact on service users and employees with protected characteristics. Where the EIA process identifies a disproportionate negative impact with no reasonable mitigation, the proposals will be subject to a full EIA and may need to be changed or even rejected. In addition, an Equalities Assessment which considers the potential or likely impact of the proposals to be considered by Cabinet in February 2019, will be prepared. The consultation process outlined in this report will be an important source of information for these exercises.

9.0 School Funding Reforms

9.1 In late July 2018 there was a ministerial statement on the teachers' pay rise for 2018/19. The pay rise was confirmed as an increase from September 2018 of between 1.5% for the leadership scale and 3.5% for the main pay scale. This will be funded by a grant separate to the DSG in 2018/19 and in 2019/20. The detailed grant allocations were not announced, although the statement did clarify that the grant will fund the difference between the above and the 1% it is assumed that schools have already budgeted for.

9.2 The statement of the teacher pay rise coincided with the DfE releasing policy and operational guidance on school revenue funding for 2019/20 and 2020/21. Schools revenue funding will continue to be made by via 4 blocks – Schools,

Central, High Needs and Early Years. As in 2018/19 the allocations are to be calculated on the basis of the national school funding formula reforms but will be aggregated and allocated to each Local Authority. This arrangement is confirmed for 2019/20 and 2020/21, which means the primary legislation needed to fund schools directly will not be put before parliament for another year or two.

- 9.3 As announced last year there will be some increase in cash (rather than real) terms to schools block funding allocations in 2018/19 of about 0.5% per pupil. This is separate to the teacher pay rise grant. Local Authorities will continue to set the local schools formulae for distributing the schools block, although LA's allocations are aggregated from school level calculations using the national funding formula.
- 9.4 A key change for 2019/20 is that the DfE will top slice the amount of Schools Block previously set by each authority as a Growth Budget and then reallocate to authorities according to a formula multiplied by actual growth between October 2017 and October 2018. The size of the growth allocation will not be known until December 2018. Decreases in allocations will be minimised to 0.5% of the total Schools Block, which is £1.2M for Brent.
- 9.5 In 2017/18 underspends on growth funds compensated for overspends in the High Needs Block and this looks set to be repeated in 2018/19. It looks as though this opportunity for mitigation on overspends will be reduced in 2019/20.
- 9.6 The central block funds ongoing responsibilities and historic commitments, and is not expected to change much. The DfE expect historic commitments to reduce from 2020/21 onwards. In Brent historic commitments total £0.8M, £0.6M of which helps support the School Effectiveness Service.
- 9.7 As previously announced there will be a small increase to the High Needs Block of 0.5% per head of under 19 population. This will be insufficient to contain the currently projected overspend of approx. £2M, and the growing demand for High Needs support, e.g. increases in the number of Education, Health & Care Plans (EH&CPs). No other funding increases are expected. The national high needs formula calculates £6M less than the current allocation for Brent, with the funding protections meaning that the high needs block will stay at £54M plus 0.5% per child/young person. More detailed guidance on the High Needs Block will be announced in September.
- 9.8 There were no new announcements made on Early Years Block. Brent early years providers are funded at a slightly higher hourly rate than that received in the DSG, with reserves making up the shortfall of £300k in 2018/19.

10.0 Housing Revenue Account

- 10.1 The 2018/19 HRA budget was set in consideration of the significant effect the government's Housing and Planning Act (2016) and other measures will have

on the Council's housing stock including on its future size, financial performance and management over coming years.

- 10.2 The prescribed 1% reduction in rents between 2016 and 2020 as set out in the Welfare Reform and Work Act 2016 will significantly reduce rental income to fund services. In October 2017 the government announced a return to CPI plus 1% for 5 years starting in April 2020. This will provide stability and certainty over planned investment in the stock, service improvement and new development, at least in the medium term. The approach beyond 2025 remains uncertain but there is an expectation that rent increases will remain.
- 10.3 The budget setting process is informed by the assumptions and modelling undertaken in the HRA business plan, this takes into consideration key items of income and expenditure forecasted over 30 years.
- 10.4 The budget setting for capital major works on council dwellings are set as part of the overall HRA, this determines the level of revenue contributions required to fund capital expenditure.
- 10.5 In setting the 2018/19 budget it was estimated that the HRA would need to find savings of £3.6m between 2017/18 to 2019/20. £1.3m of this saving is profiled to be achieved in 2019/20 through the full impact of the transformation programme which is currently being implemented in this financial year.
- 10.6 The Government's social housing green paper published in August 2018, shows ministers have scrapped plans to force local councils to sell off their highest value social homes and give the proceeds to the Treasury. This relieves savings pressures that would have been required within the HRA to fund levy payments.

11.0 Overall summary and conclusion

- 11.1 Local government continues to face an extremely challenging financial outlook following a prolonged period of austerity as well as disproportionate growth in demand for services. There is a growing level of uncertainty as the cliff edge of 2020 approaches – marking the end of the current Spending Review period and start of the new 75% business rates retention scheme.
- 11.2 The government plans to implement all three reform strands – Fair Funding, a redesigned business rates retention system at 75% and reset of the business rates baseline – by April 2020. This will require a significant volume of technical developments, formal consultation and detailed modelling. Each of the reforms could individually have a potentially significant financial implication for local authorities which could include:
 - An increase or decrease in the size of baseline need set for an authority;
 - A change in the current percentage share of local business rates income after 2020/21 compared to the current structure;
 - A change in the levels of financial reward or loss arising from shares of business rates; and

- An increase or decrease in the size of the business rates baseline which would affect the levels of gain or loss at 75%.
- 11.3 What transitional arrangements are put in place and whether these arrangements relate to just one or more of the reforms will also have a significant financial impact for an authority and the size of any cliff edge that may arise. It is anticipated that MHCLG will formally consult on the proposals, although the timing for such formal consultation is unclear at this stage.
- 11.4 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. What is reasonably certain is that the Brexit negotiations will take up a significant proportion of government resources, such that other legislative programmes may be subject to delay or other lack of certainty. This is perhaps particularly likely to be true of local government related legislation which is rarely a high political priority. For now, it is too early to predict how the government will respond on these issues and on the wider issue of austerity more generally.
- 11.5 Since 2010 the council has delivered against a series of challenging financial targets (£164 million of savings delivered since 2010 or around £18m per annum), through a combination of effective financial management, cost control and more innovative approaches to investment and demand management.
- 11.6 Officers' expectation is that savings of £40m will be needed over the lifetime of this Administration. The profile of these is broadly balanced, and so officers' advice is that the Administration should seek to agree savings of at least £20m in order to be able to agree a balanced budget for at least the next two years. However, it is important to note that, on the current funding estimates, significant further savings will need to be agreed at the Council meeting of February 2021. As a result the current working assumptions is that anything not agreed in this budget round may need to be considered again at the point in time, and further options identified.

12.0 Financial Implications

- 12.1 The financial implications are set out throughout the report. As the budget proposals are for consultation at this stage, not agreement, there are no direct costs associated with agreeing the recommendations, other than for consultation, the costs of which are built into existing budgets.

13.0 Legal Implications

- 13.1 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.

- 13.2 Standing Order 24 sets out the process that applies within the council for developing budget and capital proposals for 2019/20. There is a duty to consult representatives of non-domestic ratepayers on the Council's expenditure plans before each annual budget under Section 65 of the Local Government Finance Act 1992. The council also has a general duty to consult representatives of council tax payers, service users and others under Section 3 (2) Local Government Act 1999.

The council is also required to comply with other statutory and common law consultation obligations relevant to particular options being considered and with the Public Sector Equality Duty. The council must consult at a formative stage in the decision making process and adequate time must be given for public consideration and response. The consultation information must be accurate, fair and balanced, give sufficient reasons for proposals to permit of intelligent consideration and response and the information produced by the consultation must conscientiously be taken into account in finalising the proposals.

14.0 Equality Implications

- 14.1 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 and advance equality of opportunity and foster good relations between different those who have a protected characteristic and those who don't when making decisions. The 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.
- 14.2 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. This may mean making up the shortfall from additional reductions elsewhere.

15.0 Consultation with Ward Members and Stakeholders

15.1 Section eight of this report provides more details of the statutory and the non-statutory consultation process with regards to the proposed budget setting process.

16.0 Human Resources

16.1 Where options included in the appendices require changes or reductions in staffing, the council's Managing Change policy will apply.

Report sign off:

CONRAD HALL
Chief Finance Officer