

	<p align="center"><b>Cabinet</b> 20 July 2020</p>
	<p align="center"><b>Report from the Director of Finance</b></p>
<p><b>Medium Term Financial Outlook</b></p>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Key
<b>Open or Part/Fully Exempt:</b>	Open
<b>No. of Appendices:</b>	Appendix 1: 2020/21 savings– impact of COVID-19 Appendix 2: 2021/22 and 2022/23 savings Appendix 3: Capital programme budget 2020/21 - 2024/25
<b>Background Papers:</b>	None
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## 1.0 Purpose of the Report

- 1.1. This report sets out the overall financial position facing the Council and highlights the significant risks, issues and uncertainties. It also sets out the proposed budget setting strategy for 2021/22 and beyond in order to maximise the period of consultation with residents, businesses and other key stakeholders. The report also presents an early overview and assessment of the financial impact of COVID-19 on the medium term financial strategy and to

outline future steps to ensure the Council continues to operate in a financially sustainable and resilient way.

- 1.2. The budget for 2020/21 was set in February 2020, and on another report on this agenda the first forecasts against that budget are reported. This was a balanced budget that was predicated on the delivery of £7.4m of savings. In February 2020, Council also agreed the business plans for 2021/22 and 2022/23, which included savings of £4.3m and £1.8m respectively. Overall, the delivery of these savings, subject to the usual uncertainties regarding funding settlements and other planning uncertainties, would have resulted in balanced budgets in those years. Nonetheless, the level of savings required to balance the budget 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 reforms to local government funding that have been proposed (and delayed twice).
- 1.3 In addition, as part of this budget setting process, over the last two years the Council has been addressing historical overspends and has undertaken a more comprehensive review of demographic pressures and other expenditure pressures, which has ensured that the Council has moved to a more sustainable financial position.
- 1.4 Following the COVID-19 outbreak, the financial position has now significantly changed. The impact of the loss of income from fees and charges and the arrival of emergency costs have had an immediate effect on all local authorities, while in the longer term there is likely to be a further squeeze on public spending which could impact future funding settlement allocations. Overall, total estimated pressures of £47.6m are anticipated (including costs incurred in the 2019/20 financial year).
- 1.5 On 2 July 2020, the government announced a new package of support for Local Government. A further £500m will be provided, of which Brent's share is estimated at £2.8m. This would bring the total amount of non ringfenced government funding to £21.2m. In addition, the new package of support includes provision for some income losses to be reimbursed where losses are more than 5% of a council's planned income from sales, fees and charges, with the government covering up to 75% of the remainder. Finally, any deficits on Council Tax and Business Rates income will be allowed to be spread over three years, rather than one. The detailed working of the scheme will be confirmed over the coming weeks as government draft the statutory instrument that will give the changes effect.
- 1.6 Whilst this announcement provides much needed additional funding, it is still insufficient to cover all of the current expected expenditure pressures. Likewise, while the partial support for the loss of income is welcome, until further guidance is released, it is not possible to quantify the benefit. It is clear that only some classifications of income will be partially covered, thereby leaving an unfunded gap. Therefore, the gap between the estimated cost of COVID-19 (£47.6m) and the government funding announced to date (£21.2m) is estimated to be £26.4m before the support for income losses is taken into

account. For context, the estimate for income losses and irrecoverable debts stand at £23m.

- 1.7 At this stage, it not clear if further funding from government will be forthcoming, nor is it clear how long the current circumstances will last, making financial planning and management exceptionally challenging. Equally, while one can be reasonably assured about government support for some, but far from all, current emergency expenditure, short to medium term income impacts alongside medium term expenditure looks set to place significant additional pressures. Initial estimates set out in this report suggest that, in addition to the pressures already identified, there may be recurring pressures of between £11m and £29m from 2021/22, which will significantly affect future budget setting.
- 1.8 As a result, the Council has cautiously started scenario planning in the event the Government fails to cover all of Brent's COVID-19 costs, as it is imperative for the Council to meet its financial responsibilities. Should the Government funding fall short of the full costs of COVID-19, as a financially responsible council, consideration of options to mitigate these impacts, in both the short and medium term, will be necessary.
- 1.9 The remainder of this report sets out the medium term risks and uncertainties with regards to the current budget assumptions contained within the Medium Term Financial Strategy (MTFS). This includes risks and uncertainties that already existed prior to COVID-19 and the new risks that must now be addressed. It also sets out the proposed budget setting process for 2021/22, which is the Council's minimum legal duty in respect of local authority budget setting. This report outlines some early considerations on the potential impact on the longer term financial position. In doing so, it must be recognised that the situation remains ongoing and it is extremely difficult to make a full, definitive and comprehensive assessment of the financial impact. As such, the figures in this report are based upon best estimates and forecasts and will therefore be subject to change. However, the significance of the financial challenge cannot be underestimated and over time, the council will need to develop a response that continues to maintain a commitment to strong financial resilience and sustainability.
- 1.10 This report is structured as follows:
  - Recommendations for cabinet to approve;
  - Strategic overview of Local Government finance;
  - Future budget assumptions;
  - Proposed budget setting process for 2021/22;
  - Capital programme;
  - Schools and the Dedicated Schools Grant;
  - Housing Revenue Account;
  - Overall summary and conclusion.

## **2.0 Recommendation(s)**

- 2.1 That Cabinet note the contents of the report and the potential financial impact on the Councils Medium Term Financial Strategy.
- 2.2 That Cabinet agrees the budget setting process for 2021/22, including the approach to consultation and scrutiny, as set out in section five of this report.
- 2.3 That Cabinet confirm their intention, as previously announced and subject to consultation and any other material changes to circumstances, to increase council tax by 3.99% in 2021/22.
- 2.4 That Cabinet note the Capital budgets and agree the proposed 2019/20 capital budget carry forwards and capital virements set out in section six of this report.

## **3.0 Strategic Overview**

- 3.1 In February 2020, Council agreed a Medium Term Financial Strategy (MTFS) that sought to provide the financial framework for the years 2020/21 to 2022/23. The programme, developed through a combination of effective financial management and cost control and more innovative approaches to investment and demand management, set out the delivery of £13.5m of savings (profiled £7.4m in 2020/21, £4.3m in 2021/22 and £1.8m in 2022/23) in order to deliver balanced budgets over the three year period. This followed a period of 10 years where, as a result of significant reductions in government funding and the challenges posed by new legislation, the Council had been obliged to make an unprecedented £174m of savings, despite an increase in demand for key services.
- 3.2 At the time the MTFS was agreed in February 2020, it was recognised that further funding strategies were required to close the overall budget gap over the three year period. These strategies included the recognition of further external grant income, a stress testing of growth assumptions and further scrutiny of spending and budget allocation decisions, including inflation and other technical adjustments.
- 3.3 It was also recognised that while the Council remained in a strong financial position, there were significant medium term financial risks that needed to be taken account of and managed to ensure the Council remained financially resilient. Most notably, these were around the uncertain funding outlook for local government, uncertainty around the long term funding for adult social care and emerging pressures in children's services.
- 3.4 Therefore, it should be noted that the Council was already operating in a significantly challenging financial environment prior to the outbreak of COVID-19.
- 3.5 Linked to the point earlier on the uncertain funding outlook, the Government announced on 24 March 2020, that the Comprehensive Spending Review

(CSR) would be delayed from July 2020 to enable the government to remain focused on responding to the public health and economic emergency. The intention was that the CSR would have set future public spending plans for the next 3-5 years and with it, an outline for the total quantum of funding for the local government sector.

- 3.6 At the same time, there had been an intention to introduce local government funding reforms from April 2021, including the outcome of the 'Fair Funding Review'. On 28 April, the Government confirmed that the Fair Funding Review, including the move to 75% business rates retention, would be delayed again and no longer be implemented in April 2021. At this stage, it is not clear when these reforms will be introduced.
- 3.7 At the time of writing, it remains unclear when the CSR will take place. It is doubtful that the government will be in a position in the near future to commit to public spending levels over the medium term given the current uncertainty and flux in the economy. This means that Brent, like all other local authorities, will need to continue to plan with little or no funding certainty over the medium term.
- 3.8 It should be noted that the COVID-19 crisis will almost certainly have a long term impact on the council's financial position and require the council to review its medium term financial strategy to ensure that it is still able to deliver the outcomes of the Borough Plan and maintain its financial resilience. Though the precise financial impact of COVID-19 remains difficult to predict at this early stage, officers will continue to report on the council's financial position to Cabinet at regular intervals in line with its existing governance arrangements.
- 3.9 As reported to Cabinet in April 2020, the initial estimate of the financial impact of the COVID-19 outbreak was c£35m. This was inclusive of additional expenditure pressures as a result of the outbreak (e.g. personal protective equipment for carers and front line staff, emergency accommodation for rough sleepers, overflow mortuary, support for residents that are shielding, etc.), loss of income (fees, charges and other commercial income from planning and building control, parking, rents, venue hires, etc.) and slippage of 2020/21 savings plans. Since then, these estimates have been further refined and are now estimated at £47.6m. This is made up of £42.7m of additional income and expenditure pressures and £4.9m of slippage in savings plans. Some of these costs were incurred in 2019/20 and so the figures reported in the Quarter 1 Financial Report 2020/21 on the same agenda will differ slightly.
- 3.10 London Councils has collated a summary of the London local government finance pressures based on the boroughs' recent finance returns and the results for Brent are broadly in line other boroughs, when expressed as a percentage of the overall budget.
- Boroughs are estimating £1.8 billion of extra pressure on finances this year due to Covid-19.
  - Of this, £1.1 billion is caused by boroughs' income loss and £700 million by increased expenditure.

- The government support announced so far equates to £500 million for London boroughs, which means there is a remaining gap of £1.3 billion in new financial pressures.
- Boroughs' £1.1 billion income loss is due to falling returns from fees and charges, council tax, business rates, Housing Revenue Account and commercial income.
- Approximately half of boroughs' £700 million anticipated increased expenditure will be on adult social care and in covering planned savings that will not now be achieved. Over £50 million extra is expected to be spent on homelessness and rough sleeping, with a similar amount on children's social care.
- Boroughs have had £500m so far in emergency funding but boroughs are reporting their additional pressures in March, April and May already exceed this (£600m).

3.11 Clearly, the government funding received thus far has gone some way to relieve immediate financial pressures. The Secretary of State's commitment to give all councils the resources they need to support their residents and businesses through this pandemic cannot waver. At this stage, the level of government funding currently agreed is considerably lower than the expected financial pressures over the coming year. The council, alongside both the Local Government Association (LGA) and London Councils, will continue to engage with government to press for further funding support. In the absence of such funding, the Council will need to consider how it meets the increasing demand on its services within its limited resources.

3.12 Further details of these pressures and underlying assumptions are contained within the Q1 Budget Monitoring Report on the same agenda. Nevertheless, in so far as it relates to medium term financial planning, the focus of this report will be on the potential long term impact, where possible, of COVID-19 on current and future savings, as well as the possible long term income and expenditure assumptions.

### **Delivery of 2020/21 savings and impact on MTFs**

3.13 The budget agreed by Council in February 2020 included savings of £7.4m in 2020/21, in order to deliver a balanced budget. Considering the work undertaken throughout the budget setting process for 2020/21 to ensure that robust and realistic savings and income proposals were put forward and implemented, it would have been expected to see the majority, if not all, of the proposals to be on track to be delivered. Understandably, immediate service priorities have changed as part of the emergency response to the outbreak, as well as managing the additional income and expenditure pressures arising on existing budgets, which inevitably would have an impact on the delivery of some savings plans previously agreed by Council.

3.14 The initial assessment of the impact of COVID-19 on the delivery of these savings is summarised by department in the table below. Further details on individual savings can be found in Appendix A. Overall, the majority of the savings at risk will be subject to some degree of slippage, rather than not being delivered at all.

	<b>Savings Already Delivered</b>	<b>Slippage on delivery but still achievable</b>	<b>Savings unachievable</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Assistant Chief Executive	(0.3)	0.0	0.0	<b>(0.3)</b>
Chief Executive	(0.1)	0.0	0.0	<b>(0.1)</b>
Children & Young People	(0.7)	(0.9)	0.0	<b>(1.6)</b>
Community Wellbeing	(0.5)	(3.7)	0.0	<b>(4.2)</b>
Customer & Digital Services	(0.4)	0.0	0.0	<b>(0.4)</b>
Regeneration & Environment	(0.5)	0.0	(0.3)	<b>(0.8)</b>
<b>Total</b>	<b>(2.5)</b>	<b>(4.6)</b>	<b>(0.3)</b>	<b>(7.4)</b>

3.15 Aside from the significant immediate financial pressures being experienced, from a financial planning and budget setting point of view, the analysis above is broadly positive at this stage in that savings are expected to be largely delivered, albeit not fully in the current financial year. If the assessment of the delivery of savings was that departments will not be able to deliver them at all, the consequences would be more fundamental and the council would need to consider more emergency measures and mitigating actions to ensure the overall budget can still be reasonably balanced. Further commentary on the impact of COVID-19 on the delivery of 2020/21 savings, as well as potential recurring pressures from 2021/22, by department is provided in the following paragraphs.

### **Community Wellbeing**

3.16 A total of £4.2m savings were planned from the CWB department budgets, but £2m of this relates to the ongoing NAIL programme and were already re-profiled to the 2021/22 financial year, with reserves being used in 2020/21. In terms of those savings at risk, COVID-19 has affected some of the budgeted measures. The recommissioning of homecare and day care provision has been delayed in order to focus on the emergency response, delaying savings of £0.3m until 2021/22. The opening of the Family Wellbeing Centres has been pushed back to December 2020 so the public health recommissioning savings are also at risk. No significant financial savings are expected on this in 2020/21, creating a pressure of up to £0.5m.

- 3.17 COVID-19 will also affect those savings proposals that form part of the Temporary Accommodation reform plan. The crisis has caused delays to the construction and procurement of new properties. The threshold for TA placement has also been reduced due to COVID-19, which has temporarily increased demand through the lockdown period. In total, there are £1.1m of housing savings that are at risk. Whilst alternative plans and mitigations are in place, there is a risk that the full savings target will not be achieved in 2020/21 due to COVID-19.
- 3.18 Looking ahead, the homecare commissioning exercise and the creation of the in-house re-ablement service is on track to take place in 2020/21, which should mean that planned efficiency savings are secured for the 2021/22 financial year.
- 3.19 The longer term impacts of COVID-19 are likely to put pressure on Adult Social Care budgets. Current use of PPE costs £1.5m each quarter and regardless of whether the Council buys this directly or Care Homes source their own, it will ultimately increase the overall cost of care. This could require up to £6m of additional funding in future years. There have been signs of an initial drop in demand for care following the outbreak, but in the longer term the demographic trends could continue to create the growth in demand included in the MTFs.
- 3.20 In Housing, the most significant medium term risk is to rent collection rates from both HRA and General Fund tenants. A severe or prolonged recession will depress the collection rates for a number of quarters and increase the levels of bad debts incurred by the council. If the current lower collection rates are sustained this could cost up to £5m per year.
- 3.21 Overall, it is estimated that the recurring additional pressures to the CWB budget could be anywhere in the region of £4m and £12.5m from 2021/22 onwards. A continuation of pandemic response measures will require additional resources for managing homelessness, and this service is also likely to be impacted by the forecast worsening economic situation for Brent. Between £1m and £2m could be required for Housing Needs in 2021/22.
- 3.22 A lengthy recession which impacts employment will continue to depress collection rates in 2021/22. The council could expect similar shortfalls in HRA rent and service charges to those forecast for 2020/21, totaling £1m to £2.5m. This is considered a medium term rather than longer term pressure, as when the economy improves collection rates are expected to return to 2019/20 levels. There is also likely to be a continued impact on rent collection in the Housing Needs General Fund budget of £2m.

### **Children & Young People**

- 3.23 There are two savings targets to be delivered by the department in 2020/21 and due to the impact of COVID-19 there will be slippage in delivery of these savings. The targets include £1.49m to develop family hubs from children's



centres, renamed Family Wellbeing Centres (FWC). Due to COVID-19, the contracts will be extended with the expectation of a revised go-live date of December 2020. It is estimated that the cost of the slippage will be £0.8m.

- 3.24 The other savings target in CYP of £0.1m relates to developing a shared fostering service with three other West London Alliance (WLA) boroughs, resulting in staffing efficiencies. In 2019/20, a grant of £0.1m seed funding was awarded to the WLA with Brent being the lead authority to create a West London fostering agency. A business case was developed for submission to the Department for Education (DfE) for further seed funding allowing creation of the joint fostering service but due to COVID-19, the DfE has suspended activity on this until further notice. However, it is estimated that some work on sharing marketing and recruitment functions will be able to take place and this could deliver £30k of the savings target.
- 3.25 During the pandemic, there has been a reduction in the number of referrals because of the partial closure of schools and the reduction in other partner services. However, the risk remains that there will be a surge in the number of referrals received by the department as restrictions are lifted.
- 3.26 There is also the impact of the loss of income in 2020/21 from traded services with schools. The largest losses of £0.7m are within the Brent Music Service and the Gordon Brown Centre. From week commencing 1 June there was a wider opening of primary schools for pupils in Reception, Year 1 and Year 6. Also, from week commencing 15 June, secondary school pupils in Year 10 and Year 12 were invited back into school for some face-to-face support with their teachers. However, due to the nature of services provided by the Brent Music Service and the Gordon Brown Centre and the social distancing measures required, there remains a risk to the level of income that these traded services can generate even following the wider opening of schools.
- 3.27 Another impact of the COVID-19 pandemic that will affect this department is a decision taken by Transport for London (TfL) to suspend free travel for under 18s. There are ongoing discussions taking place between Local Authorities in London, TfL and the Department for Transport (DfT) to understand the implications this decision will have. This concession has been in place since 2006. The withdrawal of free travel for under 18s means that the council will have to fund statutory support for school travel, as is the case for local authorities outside of London. Section 508B of the Education Act 1996 requires local authorities to provide free transport for all pupils of compulsory school age if their nearest suitable school is beyond 2 miles from home for under-8s and beyond 3 miles from home for those aged between 8 and 16.
- 3.28 Depending on the policy approach adopted by the Council, to fund statutory school transport costs, modeling of the potential financial impact estimates annual recurring costs of c£1.1m. This first scenario assumes funding travel costs when approximately 30% of primary pupils and 20% of secondary pupils are offered a nearest suitable school. However a second scenario assumes that all primary children will be offered a nearest suitable school and only a small number of secondary pupils could not be offered a nearest suitable school

therefore the cost pressure will be considerably reduced to £46k. It is anticipated that any changes would come into effect at the start of the new academic year, September 2020, and therefore the initial cost for 2020/21 is estimated as £0.7m against the first scenario and £31k against the second scenario.

- 3.29 The impact of this decision will also lead to pressures against the Looked after Children and the Youth Offending Service budgets in the region of £0.1m - £0.2m. However further work is required to model the costs and understand the wider administrative implications. Furthermore, no additional funding has been provided to Local Authorities for this new burden.

### **Regeneration & Environment**

- 3.30 A total of £0.8m of savings was expected to be delivered by the Regeneration & Environment department in 2020/21. Of the five savings identified, two have been delivered. The service has delivered £0.5m of savings by dimming street lights and achieving staffing efficiencies.
- 3.31 The remaining three savings amount to £0.3m and relate to income generation. The ability to achieve them has been affected by the government's lockdown and social distancing measures. Both commercial rent, planning and building control income is expected to be severely affected due to this. In addition, activity in Wembley is unlikely to increase in the short term, which will have a negative impact on the ability to achieve the expected rise in licencing income.
- 3.32 As a result of the COVID-19 outbreak, the Regeneration & Environment department is anticipating some longer-term implications on its budget. A significant impact is expected on the SEN transport budget where the service is likely to incur additional service costs due to social distancing measures in vehicles. So far, SEN passengers have not returned to school in large numbers, and it is thought this may continue for the end of this academic year.
- 3.33 The Parking Account is expected to incur a loss of income due to the possibility of reduced car ownership leading to less motoring activity. However, there are signs that some income is recovering – PCN issuance has returned to 95% of pre COVID-19 levels.
- 3.34 It is also likely that rental income from tenants will be affected as they are unable to pay rents, while new legislation prevents the council from taking possession for non-payment. A further loss of income is anticipated from land searches, planning and building control applications as a result of a possible slowdown in the property market, slower than planned progress on current major developments and an expected reduction in the number of new developments. It is also anticipated that the reduced number of staff and visitors to the Brent Civic Centre will result in a long term reduction in budgeted income from the Brent Civic Centre car park.

- 3.35 The inevitable recession will almost certainly impact R&E's budgeted income across all activity levels. R&E is budgeted to generate £47.8m of income in 2020/21 with similar numbers in future years. At this stage it is too early to estimate the long-term impact, but a 10% average reduction, for example, would lead to a circa £5m shortfall. For comparison, in the first six months of 2020/21 it is estimated that R&E's total income is 35-40% below budget.
- 3.36 Overall, it is estimated that recurring additional pressures may be in the region of £5m to £16m from 2021/22. The largest components of future pressures are likely to be:
- (i) SEN Transport: £3m - £11m. This assumes social distancing is in place and schools are open.
  - (ii) Loss of income: £2m - £5m. This represents 5% to 10% of R&E's total income.

### **Customer & Digital Services and Assistant Chief Executive**

- 3.37 In total £0.7m of savings were planned across all of the corporate departments, which were primarily based on service modernisation, more digital services and realising other efficiencies. All of these savings were delivered early during 2019/20 and 2020/21 budgets were adjusted accordingly.
- 3.38 The most significant medium term risk in the corporate departments is the loss of income as a result of reduced bookings for weddings and other ceremonies, commercial venue bookings at the Civic Centre and commercial advertising. Although activity is expected to increase in the future, this could be to a lesser degree than previous years and could lead to recurring pressures of between £0.5m and £1m from 2021/22.

### **Overall summary**

- 3.39 Overall, the estimates set out in this report are considerable in terms of loss of income and expenditure pressures (£42.7m) and delay in the delivery of savings (£4.9m) in 2020/21, as well as recurring pressures of between £11m and £29m from 2021/22. The consideration of options for managing the pressures from 2021/22 are described in section five of this report. With regards to managing the 2020/21 pressures, in the event that there is a shortfall in funding provided by government, there are some alternative options that could be implemented as 'one off' measures in order to keep the council on a sound financial footing.
- 3.40 As a last resort, the Council would utilise its reserves to contain any unexpected and one off expenditure pressures in 2020/21. The financial outturn position for 2019/20 showed that the Council held general reserves of £15.1m. In addition, the Council held £146m in earmarked reserves (excluding Community Infrastructure Levy funds and other ring fenced reserves) which are held to meet specific identified purposes or future expenditure commitments, a large proportion of which are for the financing of the capital programme.

- 3.41 General reserves reflect the ability of the Council to deal with unforeseen events and unexpected financial pressures in any particular year and are a key indicator of the financial resilience of the Council. As part of the Medium Term Financial Strategy agreed by Council in February 2020, the Director of Finance assessed that the optimum level of general reserves to be held by the Council should be between 5-10% of net expenditure. At 31 March 2020 general reserves were at 5.3% of the net revenue budget for 2020/21.
- 3.42 Furthermore, an annual assessment of Local Authority reserves has shown that the £15.1m of general reserves held by Brent are relatively low when compared to other London Boroughs of a similar size. This view has been endorsed by the external auditor in their annual review of the Council's financial sustainability. In addition, the Council is required to confirm, in accordance with the Code of Practice, that the statement of accounts is prepared on the basis that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. Therefore, in the event that the COVID-19 costs are not fully funded by government the council has the option of utilising general reserves as a one-off measure. However, in this event, the council would need to find additional savings in the following year to replenish these reserves in order to demonstrate to external audit, and other interested parties, that the risk of financial sustainability is being mitigated.
- 3.43 Instead, the Council is taking a proactive approach to managing the financial impact of COVID-19 and is proposing to implement a drive to identify non COVID-19 related underspends and other mitigating actions to compensate, as much as possible, for the impact of the estimated £4.9m of non-deliverable savings in 2020/21. Because of the COVID-19 lockdown measures, some expenditure that would otherwise be incurred by departments during the year has reduced. This includes less expenditure on staff travel, stationery, printing, etc. as well as energy savings from reduced building occupancy, less buildings maintenance related expenditure and posts being held vacant for longer. Therefore, it is important that these underspends are recorded to ensure that, as far as possible, the non-delivery of savings are mitigated before further severe measures are considered, such as expenditure restrictions on non-essential purchases, service reductions and a recruitment freeze. The progress of this strategy will be reported to Cabinet regularly as part of the existing budget monitoring regime.

## **4.0 Review of future budget assumptions**

### **Council Tax**

- 4.1 Council Tax is one of the most significant sources of income for the Council, making up £128.1m (or 44%) of total core funding in 2020/21 rising to £141.4m in 2022/23. The MTFs agreed by Council in February 2020 included an assumed council tax increase of 3.99% in 2021/22, the same as in 2020/21, where 2% is ring fenced for Adult Social Care and 1.99% represents general funding for council services. This increase will provide £7.1m of further

additional recurring income for the Council and reduces the amount of savings required to close the overall budget gap.

- 4.2 Council Tax bills were sent to Brent residents around mid-March and since then impact of COVID-19 on households in the borough has been difficult and will be significant over the next few months. Financially, for some this is a worrying time. Brent established a new Council Tax Support (CTS) scheme in April 2020, which provides support to over 27,000 households in paying their bills and is one of the most generous in the country. The Government has provided Brent a hardship grant of £3.9m to help further support individuals in paying their Council Tax. In line with the government guidance, Brent has been reducing bills by up to £150 for over 7,000 working age households that receive some help through the CTS scheme but still currently pay something towards their council tax. In addition to the government support provided, the Council has not taken any new recovery action if residents are temporarily unable to pay council tax and postponed new debt recovery action for households falling into council tax arrears. Nonetheless, recovery action is planned to resume later in the year as it is important that any income due to the Council is collected to fund key council services.
- 4.3 When assessing the likely impact of COVID-19 on estimated income from council tax contained within the MTFs, there are three significant factors to consider:
- Council Tax Support expenditure,
  - Short and long term collection rates, and
  - Growth in the tax base.
- 4.4 Nationally, there has been an unprecedented increase in the number of Universal Credit claims received by the Department of Work and Pensions. As at May 2020, 2m applications were processed which is six times the volume normally expected. People who are eligible for Universal Credit are also eligible for some form of CTS with the Council, depending on their level of income. As at the end of June 2020, 928 applications for CTS were awarded, an increase of 5% compared to April 2020 at a cost of £1.9m. For the avoidance of doubt, an increase in the amount spent on CTS reduces the total amount of council tax income collectible for the Council. The budgeted amount of spend on CTS in 2020/21 is £27.7m and based on current modelling suggests an increase of £2.8m is likely. According to the grant conditions, the hardship grant is not allowed to fund the general increase in CTS expenditure. The impact of this in-year reduction in income would be felt in 2021/22 as a one off deficit repayment to the Collection Fund, in line with the national accounting rules governing the collection of council tax.
- 4.5 The judgement to be made with regards to financial planning is the extent to which this level of CTS expenditure is expected to continue. At this stage of the pandemic it is clearly too early to make a reliable judgement, however the data will continue to be monitored and analysed accordingly. There is an argument that as lockdown eases and some residents are able to return to work, the change in circumstances will mean those in receipt of Universal

Credit, and likewise CTS, will reduce and therefore bring CTS expenditure to levels that are tolerable within the current risk parameters of the MTFS. Likewise, the long term economic impact could be such that some businesses are unable to survive as government interventions reduce in line with the easing of lockdown measures, resulting in high unemployment levels and CTS expenditure in the medium term. In this scenario, if CTS expenditure is maintained at the levels currently expected, it would lead to a budget gap of £2.8m from 2021/22. There is also the option of increasing council tax above the current proposed increase of 3.99%, however this would mean holding a local referendum under the current government regulations.

- 4.6 Another factor that could affect Council Tax income is a reduction in the collection rate. Typically, in-year collection for Brent is around 96% and over a longer period of time will reach around 98%, which is built into the MTFS model and is broadly comparable to other London boroughs. Based on current modelling, a reduction in the 2020/21 collection rate of 3% would result in a £2.4m reduction of income. Clearly this is significant, however it is expected that collection will continue to be attempted in future years and reach the long-term collection rate target.
- 4.7 As a result of the postponement of normal debt recovery action, it is too early to be able to estimate the short and long term impact on collection. However, the data will continue to be monitored and analysed accordingly as recovery action resumes.
- 4.8 The calculation of the tax base is one of the technical stages in the process of setting the council tax. Brent, like all Local Authorities, has to work out how much next year's band D council tax should be so that the total tax that will be collected equals the budget required to pay for its services. In effect, the tax base represents the aggregate taxable value of all residential property in Brent. The council tax base is assumed to grow at 1-1.5% per year annum (or around 1,000 – 1,500 properties) and contributes nearly 30% to total budgeted council tax income in the MTFS. Therefore, if the rate of new housebuilding in the borough slows down as a result of COVID-19 the total amount of council tax income collected will be less than planned. The extent to which this impact is long term, will mean further savings and expenditure reductions will need to be found to balance the overall budget. The rate of new housebuilding will continue to be monitored through planning applications received by the council and new council tax registrations that are banded by the Valuation Office Agency. That being said, as lockdown measures ease over the next few months it is expected that housebuilding will continue broadly as planned and therefore the actual tax base growth will be within acceptable tolerances within the current MTFS model.

### **Business Rates**

- 4.9 The council remains committed to supporting local businesses through this crisis. Funded by government, the council has processed a range of reliefs for various businesses across the retail, hospitality, leisure and other sectors. This has significantly reduced the amount of rates paid to the Council with the

reduction estimated at £53.6m. In addition, as at the end of May 2020, the council has administered direct grants to local businesses totalling £55.4m across 3,746 businesses. These are in the form of individual grants worth £10,000 - £25,000 depending on the size of the business. The council continues to engage with the business community to ensure that those eligible businesses have access to this support.

- 4.10 In addition, the government has provided £3.3m of additional funding to provide top-up grants to businesses not covered by the existing grant regime for small businesses and retail, leisure and hospitality businesses. Authorities will have discretion, but are expected to use funds in their area, subject to local economic need, focusing on small businesses with ongoing fixed property costs. The implementation of this scheme was agreed by Cabinet on 15 June 2020.
- 4.11 Irrespective of the range of support provided to businesses by Local Authorities, including the support provided directly by government (job retention scheme, loans, tax deferrals), it is inevitable that some businesses will be unable to pay their business rates during the COVID-19 crisis. Even as lockdown measures are eased, some businesses may be unable to trade effectively or are impacted by a reduction in customer demand. This will lead to an increase in bad debt for business rates and a loss of income collected. Based on current modelling, if collection rates reduced by c3%, the loss of income would be £4.3m.
- 4.12 The Government designated a pan-London business rates pool in 2018/19, which piloted 100% retention in that year, and was revised to pilot 75% retention in 2019/20. For 2020/21 the Government decided not to renew the London pilot, and for London to revert back to the pre-existing 2017/18 67% retention scheme (30% borough share, 37% GLA share, 33% Government share).
- 4.13 Pooling allows authorities to be treated as if they were a single entity for the purposes of calculating tariffs, top ups, safety net payments and levies. The financial benefit comes from the pool overall paying a lower levy on growth than the boroughs would paid individually. Within the system, a safety net exists that would prevent local authorities' income from falling below a certain level. This would provide protection for authorities who saw significant reductions in their business rate income. For Brent, this safety net means that the maximum loss against the budget 2020/21 budget is £6.6m (7.5%). However, if this loss transpires, it would cause a further financial pressure for the Council.
- 4.14 London Councils will be undertaking financial modelling on the potential impact of a deficit on the pool, and individual boroughs, following the submission of forecasts from each London borough. The results of this modelling are expected later in the year and will, together with other intelligence and data gathering exercises on collection rates, be critical in better understanding the potential impact on the 2020/21 budget and future budget assumptions on business rates. It should be noted that Brent's proportion of the pool is relatively small, at 2%, compared to some boroughs with a larger stake (LB Westminster, LB Camden and the City of London contribute nearly 50% of all business rates collected in London) and so changes within the Brent have a small impact on the overall pool. However, reductions replicated across the pool, or

concentrated in boroughs with large contributions to the pool, will have a big impact on the overall outturn for the pool. Similar to the accounting rules governing the collection of Council Tax, a deficit in the pool would have to be borne by every London borough as a one-off repayment to the Collection Fund in 2021/22.

- 4.15 A further complication is that the future of the London pool is unknown at this stage as it requires approval from government as part of the 2021/22 Local Government Finance Settlement, expected in December 2020. There has been a different business rates retention regime every year since 2016/17 and any further change can have a significant impact on retained income, which further adds to the uncertainty in medium term financial planning.

### **Growth assumptions / Cost pressures**

- 4.16 Critical to understanding the overall budget are the annual growth assumptions, or estimated increases in unavoidable expenditure, that are built in to medium term financial planning, for example contract inflation, pay inflation, meeting the cost of providing existing services for a growing population, etc. These estimates were put forward for the 2020/21 budget following an extensive review. For the avoidance of doubt, these expenditure assumptions represent the annual costs, all else being equal, that would have to be incurred just to stand still. A summary of these growth and cost pressures are shown in the table below.

<b>Assumption</b>	<b>Extra cost per annum (£m)</b>	<b>Description</b>
Demography	3.5	Estimated annual cost of providing the same services to a growing population.
Payroll	2.1	Based on a 2% pay award and new pay spines.
London Living Wage	1.5	Assumed average annual cost of making more contracts LLW compliant.
Contracts	3.9	Primarily based on 2% inflation and known contractual commitments.
Transport	1.3	Freedom passes and transporting children with Special Educational Needs.
Technical	0.5	Pensions, levies (e.g. West London Waste Authority) and other technical items.
Capital financing	0.2	Interest and debt repayment costs for the capital programme.
<b>Total Growth</b>	<b>13.0</b>	



- 4.17 These growth assumptions will be further reviewed over the summer as part of the 2021/22 budget setting process in order to assess the extent to which the impact of COVID-19 changes these assumptions. In particular, the data on which demographic growth is based upon may need to be reviewed in light of the changes in various population age cohorts. Inflation on contracts is another large expenditure pressure for the Council which will need to be reviewed in light of the inevitable recession and economic contraction. Furthermore, growth may be required in future years to compensate for a permanent reduction in the budgeted level of income that the council is able to generate from fees, charges and other income. This is particularly relevant for the Regeneration & Environment department where there is a possibility that future income levels do not fully reach the levels currently budgeted for, and therefore require growth in their budgets to compensate for the loss.

## **5.0 Proposed budget setting process for 2021/22**

- 5.1 Prior to the outbreak of COVID-19, the budget agreed by Council in February 2020 set out a savings programme of £6.1m between 2021/22 and 2022/23, which are set out in appendix B. This included agreeing that the budget should be constructed on the basis of a council tax increase of 3.99% in 2021/22, which meant that, subject to consultation and any other material changes to circumstances, no new savings proposals would have needed to be developed to achieve a balanced budget in 2021/22.
- 5.2 As noted earlier in the report, at this stage it is estimated that £4.9m of the total £7.4m savings programme for 2020/21 will not be delivered in 2020/21, but will be delivered in 2021/22. The current working assumption is that the savings planned for 2021/22 will be delivered, albeit this will also be kept under review.
- 5.3 Based on information and data available to date, officers initial estimate is that ongoing and recurring pressures in the region of £11m and £29m are expected from 2021/22 across all service areas and council tax collection. At this stage, this excludes estimates of future losses on business rates while further modelling is undertaken. Therefore, without any additional funding or reliefs from the government, the budget gap is likely to increase further.
- 5.4 These estimates, which will be refined over the summer, will be a major factor in the construction of 2021/22 budget. For the avoidance of doubt, if all other budget assumptions remain as previously agreed, a budget gap of between £11m and £29m will be created. As a result, robust and credible plans will need to be developed, and agreed in February 2021, in order to deliver a legally required balanced budget.
- 5.5 A further consideration is the outcome of the Spending Review, which sets out the total quantum of funding the sector. This was expected in July and the intention was to set future spending plans for the next 3-5 years. At this stage it is not clear when the Spending Review will be announced. In addition to this is the Local Government Finance Settlement, which is typically announced in December, to confirm the funding for individual local authorities for 2021/22. A

welcome approach would be similar approach to last year's spending round, which effectively confirmed the settlement early in September, and rolled forward the existing settlement with an increase in funding. This lack of clarity means that the Council will need to continue to plan with little or no funding certainty over the medium term.

5.6 That being said, based on what is currently known, or can reasonably be assumed, about future funding settlements further reductions in expenditure will be required. The Council will need to take difficult decisions about which services to prioritise and protect and which to reduce in order to continue to deliver affordable and sustainable budgets.

5.7 In closing a budget gap of this magnitude and in a relatively short space of time, there are three main options for consideration:

1. Further savings will need to be developed in order to reduce expenditure. This could include further efficiencies, however options here are limited given the current savings programme already includes a significant number of efficiencies. Also, with new income generation options likely to be limited due to the current situation, it is possible that service reductions will need to be considered.
2. Reduce growth assumptions. £13m of annual growth is currently built into the MTFs and any reductions here would have the effect of closing the overall budget gap. However, there is a risk that this stores up pressures in future years as service areas may be unable to contain unavoidable growth in demand for services due to population growth or fund contractually obliged inflation on contracts.
3. Scale back the capital programme. Pausing or stopping specific capital schemes that are funded by borrowing would have the effect of freeing up corporate revenue budgets already set aside to provide capital financing for the capital programme.

5.8 A further consideration is if government introduces new interventions specifically for long term COVID-19 related pressures. This could include a multi-year minimum funding guarantee to local authorities to compensate them for those income losses beyond their control. Another option may be to allow the capitalisation of losses, which would ultimately be funded by increased borrowing.

5.9 These options will be further examined in order to ensure their consequences are properly understood and set out for members. The outcome of this review will be presented to Cabinet as part of the draft 2021/22 budget in October 2020. The budget proposals will need to be consulted upon by January 2021 and therefore the proposed budget setting process following this Cabinet meeting is as follows:

- Cabinet October 2020. This report will present the budget proposals to be formally consulted on to set the 2021/22 budget;

- The proposals, together with any changes made by Cabinet, will form the basis of consultation between October 2020 and January 2021 with residents, businesses and other key stakeholders;
- The Budget Scrutiny Task Group will review the budget proposals and report accordingly;
- The General Purposes Committee will review the calculation of the Council Tax base in December 2020.
- After the statutory processes of consultation, scrutiny and equalities have concluded, a draft budget will be presented to Cabinet to recommend a final budget and council tax to the February 2020 Council meeting.

## 6.0 Capital programme

- 6.1 In 2019/20 the Council spent £232m, this equates to 89% of the approved capital programme budget for that year and was under spent to budget by £29.2m or 11% as shown in Table 1 below.

Table 1 – 2019/20 Outturn Position

<b>Table 1 – 2019/20 Final Outturn position</b>					
<b>Portfolio / Programme</b>	<b>Revised Budget (Approved Feb20)</b>	<b>Outturn</b>	<b>Over / (Under) Spend to Budget</b>	<b>Over / (Under) spend split</b>	
				<b>2019/20 Slippage C/FWD</b>	<b>Under Spend for Repurposing</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Corporate Landlord	10.553	5.270	(5.284)	(5.284)	–
HCIB - GF	23.190	18.057	(5.133)	(4.613)	(0.520)
HCIB - HRA	110.032	110.489	0.457	0.457	–
PRS I4B	69.749	57.471	(12.278)	(12.278)	–
Public Realm	21.172	17.446	(3.726)	(3.674)	(0.052)
Regeneration	4.049	4.178	0.129	0.129	–
Schools	10.790	9.604	(1.186)	(1.186)	–
South Kilburn	10.628	8.798	(1.830)	(1.830)	–
St Raphael's	0.988	0.652	(0.336)	(0.336)	–
<b>Grand Total</b>	<b>261.151</b>	<b>231.965</b>	<b>(29.186)</b>	<b>(28.614)</b>	<b>(0.572)</b>

## 2020/21 Capital Budget Position

- 6.2 The capital programme currently has a revised budget of £350.9m. The original Budget of £292.5m was approved at full Council in February (See Table 2). The reasons for the budget increase are summarised in paragraph 6.5 and set out in Table 3 below.
- 6.3 The 2020/21 forecast outturn position is currently below budget, this is mainly due to budget profiling. The budget re-profiling exercise is currently being undertaken. However it is worth noting that at the end of 2019/20 c£29.2m of the capital budget was required to be brought forward (mostly relating to programme slippage and underspends). It is therefore proposed that this sum is re-profiled into 2020/21 and later in some cases, except for those schemes that reached final completion in 2019/20.
- 6.4 The revised budget position for 2020/21 to 2024/25 is summarised in Table 2 below and the detailed budget by programme are in Appendix C. Table 2 shows the impact of the proposed 2019/20 carry forwards and other budget adjustments.

Table 2 – Capital Programme Revised Budget 2020/21 to 2024/25

Board	2020/21 Revised Budget	2021/22 Revised Budget	2022/23 Approved Budget	2023/24 Approved Budget	2024/25 Approved Budget	Total 2020/21 to 2024/25
	£m	£m	£m	£m	£m	£m
Corporate Landlord	27.791	53.213	8.713	1.500	–	91.217
HCIB - GF	77.235	63.992	56.119	28.600	–	225.946
HCIB - HRA	109.472	86.441	8.062	0.895	–	204.869
PRS I4B	39.682	23.500	23.500	–	–	86.682
Public Realm	28.104	5.960	5.882	5.645	–	45.590
Regeneration	22.214	19.155	23.455	–	–	64.825
Schools	19.337	16.537	17.097	–	–	52.971
South Kilburn	26.511	24.019	15.227	5.931	5.452	77.140
St Raphael's	0.636	–	–	–	–	0.636
<b>Total</b>	<b>350.981</b>	<b>292.818</b>	<b>158.054</b>	<b>42.570</b>	<b>5.452</b>	<b>849.875</b>
<b>Approved Feb 20</b>	292.470	280.515	158.054	42.570	5.452	<b>779.061</b>
<b>Budget Adjustments</b>	<b>58.511</b>	<b>12.303</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>70.814</b>

6.5 The budget adjustments set out in Table 3 include:

6.5.1 £28.6m slippage and underspend from 2019/20 set out in Table 1 above.

6.5.2 Projects approved by Cabinet since February 2020

- £31.3m (£28m excluding on costs) for Grand Union 114 affordable units purchase.
- £6m budget virement for Uxendon Manor Primary School to complete the capital works on the school for September 2020 opening.
- £3.5m of Brent CIL contribution for three CCG Medical Centres.

### 6.5.3 Budget Additions agreed at Capital Programme Board (CPB)

- £3.2m planned Major Works on council housing stock proposed to be funded from £5m SDLT savings achieved on Gloucester & Durham acquisition.

### 6.5.4 Budget Changes to be agreed

- Capitalisation budget required for project staff cost proposed to be funded from £5m SDLT savings achieved on Gloucester & Durham acquisition.
- £0.188m New Alcohol Grant received to be utilised towards property for housing people at risk.
- £5m SDLT savings achieved on Gloucester and Durham 235 units acquisition re-profiled from 2021/22 is proposed to be utilised towards funding £3.2m addition to major works budget and capitalisation budget.
- £0.572m 2019/20 budget underspend (see Table 1 above) from completed NAIL acquisition programme proposed for repurposing in 2020/21.

**Table 3 – Budget Adjustments Breakdown 2020/21 to 2024/25**

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£m	£m	£m	£m	£m	£m
<b>2019/20 Slippage C/FWD</b>	28.614					28.614
<b>Projects approved by Cabinet since Feb20</b>						
Grand Union Units	14.000	17.303				31.303
Uxendon Manor Primary School	6.000					6.000
CCG Medical Centres	3.472					3.472
<b>Budget Additions agreed at CPB</b>						
Major Works	3.232					3.232
<b>Budget Changes to be agreed</b>						
Capitalisation	2.433					2.433
Other - New Alcohol Grant	0.188					0.188
SDLT savings (re-profiled)		(5.000)				(5.000)
Budget for repurposing	0.572					0.572
<b>Total</b>	<b>58.511</b>	<b>12.303</b>	-	-	-	<b>70.814</b>

6.6 Further details on the 2020/21 forecast position is contained within the Financial Forecast report also on the agenda.

## **Pipeline**

- 6.7 The programme agreed by Council in February 2020 included £545.2m for pipeline schemes. In evaluating the investment pipeline proposals several factors are considered. These include statutory requirements, demonstrable linkages to corporate priorities, the ability for proposals to generate revenue savings and, to a slightly lesser extent, their potential to generate future capital receipts or other financial returns.
- 6.8 Since February a number of proposals have been removed as decisions have been made not to take the schemes forward (£15.2m) and a new scheme of £3.472m for the CCG Medical Centres fit-out was added and promoted to the main programme following Cabinet approval. The current total of the pipeline schemes is £529.9m.
- 6.9 Schemes will be brought forward once further refined and subject to detailed business cases, they will be promoted to the main programme following Cabinet approval where necessary.

## **7.0 Housing Revenue Account**

- 7.1 The Housing Revenue Account (HRA) is a ring-fenced account which contains the income and expenditure relating to the Council's landlord duties in respect of approximately 12,000 dwellings including those held by leaseholders.
- 7.2 The HRA budget is set each year in the context of the 30-year business plan. The business plan is reviewed annually allowing for horizon scanning and the identification and mitigation of risks in the short, medium and long term. Early identification of risks enables planning and implementation of mitigations to ensure the HRA can continue to remain financially secure and deliver on its commitments:
- Expand and accelerate the development of new Council homes.
  - Continue to maintain and improve existing Council homes.
  - Transformation and continuous improvement of front line services to tenants and leaseholders.
- 7.3 From 2020/21 and the following four years the Council will have the power to increase rents annually up to a maximum of CPI + 1%. For 2021/22, CPI + 1% is expected to equate to 2.9%, which gives the potential to increase rental income by £1.2m and up to £6m over the 5 year rent control period. This follows a 4 year period of 1% annual rent reductions which were directed by the Welfare Reform Act 2016. The average rent in 2015/16 was £114.53 per week and currently sits at £115.08 per week in 2020/21. A 2.9% increase would equate to an average rent of £118.42 per week in 2021/22.
- 7.4 HRA rent setting needs to be considered in the context of the ring-fence and the 30-year business plan. A return to the CPI plus 1% model for the five years

from 2020 was expected to provide some stability and certainty over planned investment in the stock, service improvement and new development, at least in the medium term as a £1.2m increase in rent has the effect of an additional £34m investment in the HRA over a 30-year period. However the impact of COVID-19 and the expected recession on rent collection levels and bad debts, is being monitored and will likely require a reappraisal of HRA budget priorities, and savings to be found.

## **8.0 Schools and Dedicated Schools Grant**

- 8.1 Following the COVID-19 outbreak, schools nationwide were required to close to the majority of pupils, however all schools were asked to remain open to support vulnerable children and children of critical workers. The DfE will fund exceptional costs it recognises that schools will face as a result of COVID-19 such as, increased premises related costs; support for free school meals (FSM) for eligible children who are not attending school; and additional cleaning.
- 8.2 Schools are under financial pressures due to rising costs. Staffing costs have risen due to minimum wage increases, national insurance changes, pension contributions and auto enrolment. In addition, there is also the more general inflationary cost pressures on goods and services.
- 8.3 School balances are also falling as a result of the ongoing financial pressures. Overall, balances have decreased by £2.5m from £16.1m in 2018/19 to £13.6m in 2019/20 and seven schools ended the financial year 2019/20 in deficit. The funding and expenditure pressures will persist, and are likely to require schools to take action to balance their budgets. Of the seven schools in deficit, the majority are expected to set a balanced budget in 2020/21, whilst a small number may require a licensed deficit agreement to recover the deficit over a three year period. The schools in deficit will be monitored closely throughout the year.
- 8.4 Schools are required to submit three year budgets annually and, in planning this, are starting to restructure staffing establishments where necessary, look for commercial and income generating opportunities, and for opportunities to work together on procurement. Some primary schools have falling numbers of pupils in their reception and key stage 1 year groups, and this directly reduces the funding allocated to them. These schools will need to react when planning their budgets and restructure their staffing capacity accordingly to match their income and pupil numbers. There is a financial risk that smaller schools with reducing numbers of pupils will result in more schools being in deficit.
- 8.5 The overall Brent DSG budget for the first time reported a £4.9m deficit at the end of 2019/20. This position is replicated across most other London boroughs that are forecast to be in deficit positions at the end 2019/20. In line with the School and Early Years Finance (England) Regulations 2020, any DSG deficit balance will be ring-fenced, held within the local authority's overall DSG and carried forward to be funded from future years funding and/or recovery plans agreed with the DfE.

- 8.6 The pressure in the DSG is mainly against the High Needs Block, as it is largely demand led and the number of children requiring support in both mainstream schools and special provisions is increasing. As at the end of 2018/19, there were 2,173 EHC plans and at the end of 2019/20, this number increased by 12% to 2,435 despite the overall pupil population remaining broadly the same.
- 8.7 The growth in EHCPs is a national challenge and a number of Local Authorities are reporting pressures against the High Needs Block in the DSG. The DfE recognises that it will have to be mindful of the pressures on high needs when deciding how to allocate funding in future years. Overall funding for schools and high needs is set to increase by £7.1bn in 2022/23 when compared to 2019/20. The Council set a balanced DSG budget for 2020/21 with a £5m increase in High Needs funding being allocated against the pressures in the block, in consultation with the Schools Forum. The increase will not reduce the deficit, which will carry forward into 2021/22. A combination of longer-term recovery actions and anticipated government funding increases will help to reduce the deficit, however there remains a risk that the number of EHCPs will continue to rise.

## **9.0 Overall summary and conclusion**

- 9.1 Prior to the outbreak of COVID-19, local government continued to face an extremely challenging financial outlook following a prolonged period of austerity as well as disproportionate growth in demand for services. Since 2010 the council has delivered expenditure reductions of £174m, and agreed a further £13.5m to 2022/23. This has been delivered through a combination of effective financial management, cost control and more innovative approaches to investment and demand management. As government funding has been cut the population has grown and this has been particularly pronounced in the very oldest and very youngest age groups, which are statistically most likely to require services from the council, thus adding to the cost pressures. Coupled with the impact of legislative change and uncertainty on the outcome of proposed reforms to local government funding, this has created substantial financial pressures.
- 9.2 Therefore, the Council was already operating in a significantly challenging financial environment prior to the outbreak of COVID-19.
- 9.3 The COVID-19 pandemic has created a significant shock to the economy and resulted in significant unplanned expenditure and income losses as set out in the report. The full impact of this is not yet known and the ability of the council to deliver a balanced budget for 2020/21 will be challenging. The most significant uncertainty is on the impact of the pandemic on council tax and business rates income going forwards.
- 9.4 While it is absolutely vital to ensure local communities are supported through this crisis, the response comes at a significant cost, which is putting severe strain on all local authorities. In London alone, it is estimated that the financial



impact will be £1.8bn in 2020/21. This includes a significant drop in income of at least £1.1bn and increases in expenditure on services of over £700m. London boroughs have received almost £500m in emergency funding so far from government, but boroughs are reporting additional pressures in March, April and May of £600m. Therefore, while it has been welcome, the two tranches of general emergency funding announced so far have not even covered the financial impact of the crisis since March.

- 9.5 Another important point to note is that the government funding allocated to date does not reflect individual councils' levels of resilience and therefore their ability to recover after the pandemic. Irrespective of how the emergency funding has been allocated, there are no clear objectives for what the Government wants to achieve, or the process it is going to follow to get there. Clearly, the funding for local government should firstly ensure local authorities can provide the essential services to support the fight against COVID-19 and secondly to ensure that every authority is financially viable. So far, the focus has been on the former and this has partly been achieved (although there is still a significant shortfall). Increasingly local authorities will want to engage on the latter, and, without a reasonable commitment from government, the Director of Finance may have to consider issuing a section 114 notice. A section 114 notice requires the Director of Finance, in consultation with the monitoring officer, to report to all the authority's members if there is, or is likely to be, an unbalanced budget or if there is a risk that the council will not have the resources it needs to meet its expenditure commitments in a particular financial year. Issuing such a notice triggers a freeze on all but essential spending while a plan is drawn up to bring the budget back into balance. Therefore, it is important that government provide this certainty soon, otherwise Brent, like all other local authorities, will need to consider looking at a section 114 notice depending on their financial position.
- 9.6 Looking beyond 2020/21, the postponement of the fair funding review and 75% rates retention reforms is broadly welcome, and was somewhat inevitable given the reduced capacity of government to deliver these complex reforms. A welcome approach would be similar approach to last year's spending round, which effectively confirmed the settlement early in September, and rolled forward the existing settlement with an increase in funding. Beyond additional emergency funding packages, the next and bigger issue than fair funding is the quantum of resources needed by the sector to compensate for the ongoing shifts in councils' underlying cost and income pressures.
- 9.7 Focussing on the immediate need set a balanced budget for 2021/22, the core estimates that drive the Council's budget position will be revised and updated over the summer to take account of, where possible, the national policy direction on local government finance and other local specific factors with a view to reporting back to Cabinet on the longer term financial position in October.
- 9.8 Critical to the review of key financial assumptions will be the factors set out below.

- **Demography.** The extent to which changing demographic trends will vary from those previously assumed, and so increase or decrease the assumed cost of providing services.
- **Macro-economic conditions.** The effect of changes to forecast rates on inflation, interest rates and economic growth, as a long term proxy measure of earnings and employment and hence a determinant of deprivation and need for services.
- **Local (and local government) specific factors.**
- **National policy.** The key issues and developments in national policy (so far as the impact on local government finance can be discussed with any reasonable certainty) have been set out in this report.
- **Local policy.** Local choices to prioritise some services or policies over others is at the core of local government democracy and accountability, and the impact of possible policy initiatives will need to be factored into the planning process.

## **10.0 Financial Implications**

10.1 The financial implications are set out throughout the report.

## **11.0 Legal Implications**

11.1 Standing Order 24 sets out the process that applies within the council for developing budget and capital proposals for 2021/22. 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.

## **12.0 Equality Implications**

12.1 Under the Public Sector Equality Duty (PSED) in the Equality Act 2010, Brent Council is required to pay due regard to the need to eliminate 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.

12.2 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.

### **13.0 Consultation with Ward Members and Stakeholders**

13.1 The detailed approach to the statutory consultation process will be set out as part of the budget report to be presented to Cabinet in October 2020.

### **14.0 Human Resources**

14.1 Not applicable.

**Report sign off:**

***Minesh Patel***  
Director of Finance