

LONDON BOROUGH OF BRENT
Meeting of the Executive - 16th February 2009
2009/10 BUDGET AND COUNCIL TAX

EXECUTIVE SUMMARY

1. The budget report sets out the key decisions Members are asked to make on:
 - the 2009/10 General Fund revenue budget;
 - the 2009/10 Schools Budget;
 - the 2009/10 Housing Revenue Account;
 - the council's capital programme for 2009/10 to 2012/13;
 - the council's treasury management strategy; and
 - prudential indicators aimed at ensuring the affordability of capital spending and a secure approach to borrowing and investment.
2. This executive summary covers the main items covered in each of the sections of the report.
3. *Section 1* introduces the report, with brief descriptions of what is covered in each of the other sections. It highlights the 2003 Local Government Act requirement for the Director of Finance and Corporate Resources to report on the robustness of the budget estimates and the adequacy of financial reserves.
4. *Section 2* details proposed recommendations to Full Council. These are cross-referenced to appropriate parts of the main body of the report. They include the statutory decisions Full Council is required to make on the overall budget requirement of the council, gross revenue expenditure and income, and the council tax calculation.
5. The General Fund budget making process, including its links with the Corporate Strategy priorities and the council's Medium Term Financial Strategy, is set out in *Section 3*. This section sets out the underlying budget assumptions, the process for development of the proposals, including the role of members of the Executive and the Budget Panel, and the involvement of the public, businesses and council trade unions.
6. Three year funding settlements, introduction of Area Based Grant, the development of transformation programmes in adult and children's social care and customer services, and the development of the council's Improvement and Efficiency Programme have had an impact on the approach taken to developing the budget proposals. In adult and children's social care, both of which had contributed to 'inescapable' budget growth in previous years, the development of the transformation programmes has enabled a more strategic approach to setting the budget. Instead of allocating growth to meet additional demand and then requiring budget savings, the transformation programmes themselves have been the basis on which additional demands on the services have been managed. The approach to funding priority growth

has also been aligned with the Local Area Agreement process, with the increased funding flexibility arising from introduction of Area Based Grant and the prospect of Performance Reward Grant from achievement of stretch targets in the 2006/07 to 2008/09 Local Area Agreement allowing priority growth to be funded without impacting directly on council tax levels.

7. The Budget Panel has held several meetings during the development of the budget and their recommendations are set out in their first interim report which is attached as Appendix E(ii) to this report.
8. The 2008/09 probable outturn for the General Fund budget is covered in *Section 4*. Balances at the end of 2008/09 are forecast at £8.0m which is £500k more than the target of £7.5m set for 31st March 2009 in the 2008/09 budget report. This betterment is a combination of an improved outturn for 2007/08 and an in-year forecast net underspend.
9. The recession has had an impact on Environment and Culture which faces reduced land search income and was affected by the impact of high levels of inflation in 2008/09 on contract prices. Whilst measures have been taken to reduce the impact, an overspend of £435k is forecast for Environment and Culture. There is also a forecast overspend in Adult Social Care of £629k. This is less than in recent years - reflecting the combined impact of a more sustainable budget, settlement of the dispute with the PCT, and the effect of transformation changes - but is nevertheless a concern. Adult Social Care is identified as an area that needs close attention in the Budget Panel report. All other service areas are expected to come within budget.
10. The overspends in Environment and Culture and Adult Social Care are offset by a net underspend on central items. This underspend does not include additional income from interest on the council's revenue balances as a result of relatively high interest rates earlier in the 2008/09 financial year; the impact of significantly reduced rates now means that interest on balances will be very much lower in 2009/10 and the additional income earned in 2008/09 is being held in reserve to offset forecast reductions in interest in 2009/10.
11. *Section 5* deals with the key spending decisions. The recommended overall budget requirement for 2009/10 is £261.836m, which is 2.3% above the 2008/09 budget requirement of £255.972m.
12. The key decisions Members need to take on the 2009/10 General Fund budget are as follows:
 - Agreeing or varying the service area budgets for 2009/10, which are detailed in Appendix C, incorporating growth and savings outlined in Appendix D;
 - Agreeing or varying the overall budget for service areas in 2009/10 which this report recommends should be set at £234.319m;
 - Agreeing or varying the budget for central items which is estimated at £43.696m for 2009/10, and is detailed in Appendix F;
 - Agreeing or varying the use of balances figure of £0.5m in 2009/10;

- Agreeing or varying the overall budget requirement, after taking account of Area Based Grant of £15.679m;¹.
 - Agreeing or varying the overall proposed budget of £261.836m for 2009/10.
13. In making decisions on the budget, Members have to consider the extent to which the proposed budget supports delivery of corporate and service objectives, the consequences of agreeing or not agreeing budgets at the recommended level for services and council tax payers, and the realism of, and risks associated with, the budget.
 14. Members also have to consider the impact of the budget on individuals and communities in Brent. The priorities within the Corporate Strategy and Local Area Agreement reflect the needs and aspirations of the diverse communities and individuals within Brent. Budget proposals are also screened individually by service areas to assess whether they have equalities implications. But Members also have to ensure the budget as a whole does not discriminate against communities or individuals because of age, ethnicity, gender, disability, religion, or sexual orientation, and meets the council's other duties to promote equal opportunities and good race relations.
 15. The transformation programmes within adult and children's social care place the council in a better position to manage increases in demand for these services than in the past and no growth funding is included for these areas. The proposals in this report however include £1m growth to meet additional requirements for safeguarding children. There is also funding growth to meet additional costs of temporary accommodation in anticipation of the impact of changes to the funding arrangements for temporary accommodation from 2010/11. Funding growth has also been allocated for recycling to enable the council to continue to improve its performance following the introduction of compulsory recycling.
 16. Growth required to fund priorities within the LAA, including sports activities for young people, prevention of domestic violence, volunteering, and sustainability, has been funded from Performance Reward Grant that will be paid to the council in 2009/10 and 2010/11 for achievement of stretch targets within the 2006/07 to 2008/09 Local Area Agreement. Additional funding has also been put into the libraries book fund, speeding up the Disabled Facilities Grant process, support for Brent residents in accessing benefits and allowances to which they are entitled, and citizens' advice agencies.
 17. The council is also using Area Based Grant and other specific grant funding to improve services. Growth funding within Area Based Grant of £369k has been set aside to put into Positive Activities for Young People and will be allocated as part of the Improvement and Efficiency Review of youth services. A further £170k of Area Based Grant growth is being put into the safeguarding adults programme. Additional grant of £217k for free swimming for children aged 16 and under and aged 60 and over is being used to extend the council's sporting offer. £609k of additional specific grant for social care reform will be used to help deliver the adult social care transformation

¹ There is £16.048m of Area Based Grant of which £369k for Positive Activities for Young People has been held back pending the Improvement and Efficiency Review of youth services.

programme. There is also additional specific grant funding for extended schools, children's centres and nursery school provision.

18. The performance and finance review process brings together monitoring of finance, activity and performance. The budget report now includes target activity and performance levels as well as budget allocations. It sets out the underlying activity levels the budget can support – for example, number of children in care, tonnes of waste disposed of - and the performance improvements that can be expected. Monitoring of variations from target activity levels helps the council determine what measures need to be taken to ensure spending is within budget. Linking in performance ensures that Members are aware of the key outcomes expected as a result of the budget decisions and enables oversight of delivery of these outcomes during the course of the year, including the impact of any decisions needed to bring the budget into line. These processes are of course supported by service planning within individual service areas.
19. Pressure on budgets, limited resources, and uncertainty mean that there are risks within the budget. These risks are assessed as part of the budget setting process and then carefully monitored and managed during the year as part of the performance and finance review process. The most significant financial risks for 2009/10 that have been identified as part of this process are as follows:
 - The ability of the council to recover its investments in Icelandic banks;
 - The ability of the council to offset loss of interest on balances as a result of reduced interest rates by debt restructuring;
 - The potential impact of recession on service income and service demand;
 - The potential impact of recent publicity about safeguarding children on number and cost of children in care;
 - Uncertainty about the impact in 2009/10 of planned changes to housing benefit subsidy arrangements in 2010/11;
 - The ability of the council to ensure that savings from the transformation programme contain demand pressures on adult social care.
20. The assessment of risk forms the basis for assessment of balances required. The advice of the Director of Finance and Corporate Resources on balances is as follows:
 - The minimum prudent level of balances in 2009/10 should be £7.420m, which is sufficient to meet the revenue budget risks identified in the report;
 - The optimal level of balances, to enable effective medium term financial planning in the authority, remains at £7.5m to £8m, with use of balances in any year being replenished in subsequent years;
 - As a general rule, Members should only plan to use balances to fund one-off spending;

- Where Members wish to use balances to fund on-going spending or reductions in council tax, they should indicate how they plan to make up the budget shortfall in future years.
21. Members should note that the budget proposals in *Section 5* include a recommendation to use £0.5m of balances to fund the budget in 2009/10, and that the impact of this on future years' budgets has been built in to the Medium Term Financial Strategy in *Section 7*.
 22. The resources to fund the General Fund budget are set out in *Section 6*. Overall the council will receive Formula Grant (which excludes Area Based Grant and other specific grants) of £162.095m in 2009/10. This is 1.75% higher than in 2008/09 after taking account of adjustments to the base for grants added.
 23. The council tax income requirement is £100.895m. This is based on the proposed budget requirement of £261.836m, less grant of £162.095m, with £1.154m added for Brent's share of the Collection Fund deficit. Using the council tax base of 95,279 Band D equivalent properties agreed by General Purposes Committee on 12th January 2009, the Band D Council Tax for Brent services would be £1,058.94 in 2009/10. This is a 2.5% increase compared to the 2008/09 Band D council tax for Brent services of £1,033.11.
 24. The government does not announce capping levels in advance. However, ministerial statements indicate that the 5% benchmark used in previous years is likely to apply in 2009/10 and therefore officers' advice is that a 2.5% increase is unlikely to be capped.
 25. Council tax payers in Brent also have to fund the GLA precept, which covers the Metropolitan Police, the London Fire and Emergency Planning Authority, Transport for London, the Olympics levy and the GLA itself. The Greater London Assembly will be meeting on 11th February 2009 to consider the Mayor of London's proposal to freeze the GLA Band D precept at its 2008/09 level of £309.82.
 26. Subject to agreement to the recommendations in this report and the Mayor's proposed precept, the overall council tax at Band D in Brent would be £1,368.76 in 2009/10, 1.9% higher than in 2008/09.
 27. *Section 7* of the report sets out the council's medium term financial strategy (MTFS) and is the last part of the report dealing specifically with the General Fund. The current three year settlement runs until 2010/11, with the council receiving a Formula Grant increase of 1.5% in 2010/11. The impact of current measures to take the economy out of recession will be a sharp reduction in public spending in subsequent years. The likelihood is therefore of even tighter grant settlements from 2011/12 onwards. At this stage the Medium Term Financial Strategy is assuming a freeze in Formula Grant from 2011/12 onwards.
 28. The current economic situation makes assumptions about other variables in the budget difficult. Pay awards in local government have been between 2% and 3% throughout the 2000s. Forecast low price inflation, with periods of deflation, is likely to mean pay increases closer to zero. Low price inflation will also impact on the cost of supplies and services purchased by the council. A number of the council's contracts are linked to inflation indices and this should

mean contract costs increase at a lower rate than previously forecast. On the other hand, continuation of low interest rates will have an on-going impact on the council's interest on balances. Surplus interest receipts in 2008/09 have provided the council with a cushion against loss of income as a result of low interest rates in 2009/10. If interest rates remain low after 2009/10, growth will have to be put into the budget for loss of income. The same applies to loss of income from land searches where this budget proposes use of one-off funding to cover income losses at current levels until mid 2010. However no-one knows how long low price increases, low interest rates, low levels of housing market activity and so on will last so budget forecasts from 2010/11 onwards are uncertain.

29. The council's Pension Fund is due to be valued at 1st April 2010 and this will feed into employer contributions from 2011/12. The current employer contribution, which was set in the 2007 valuation, is 22.9% of the employee's remuneration. Market turmoil has led to a significant reduction in the value of assets in the Fund. Valuations look at the long term assets and liabilities of the Fund and not just short term movements. However, if there is a view that there has been a long term downward adjustment in the market, the value placed on the Fund and the contributions that need to be made will be affected from 2011/12. This could have a significant impact on the budget with each 1% added to Pension Fund contributions adding around £1m to General Fund spending.
30. There are other pressures that the council will face where it is easier to project impact. The combined effect of landfill tax increases and increasing costs of waste disposal and recycling have added around £2m to the budget each year for the past few years and are expected to do so in future. Use of Local Housing Allowance to calculate housing benefit subsidy levels for temporary accommodation leased by the council will require growth in 2010/11 in addition to funding growth in 2009/10. A new five year deal on concessionary fares is being negotiated between London Councils and Transport for London and will have an impact from 2010/11. There will be increased costs as a result of the rising number and real cost of journeys. It is also possible that councils will be required to fund the extension of Freedom Pass usage to 24 hours. These specific budget pressures are in addition to demographic pressures resulting from increases in the overall population and the proportion of the population with social care needs.
31. The council's Medium Term Financial Strategy places us in a strong position to manage the pressures and uncertainty. The Medium Term Financial Strategy builds upon the council's financial stability and its judicious use of balances to manage risk. Transformation programmes in adult and children's social care have been used to manage increased demand and reduce 'inescapable growth'. One-off resources will continue to be used to fund 'invest to save' schemes as part of the Improvement and Efficiency Programme. Where savings are not delivered as part of transformation programmes or the council-wide Improvement and Efficiency programme, services are required to find 3% annual efficiency savings. The council has also been careful not to raise expectations about funding of priority growth and instead has used a combination of Area Based Grant, Performance Reward Grant, specific grants, redirection from lower priority services, and

improvements in efficiency to improve services. The council is also continuing work to optimise income from fees and charges. PricewaterhouseCoopers have been commissioned to put together a business case aimed at increasing income from advertising and sponsorship and officers are also developing a new fees and charges policy framework. Finally, the council has been careful not to build up unsustainable commitments by limiting the amount of prudential borrowing to fund the capital programme.

32. A key decision for Members in future years will be the level of council tax. Even if Members were inclined to increase council tax, the maximum permitted under capping rules is likely to remain at 5% or less in future years. The uncertainty about the impact of economic conditions on the council's budget makes it even more important than in the past for Members to maintain flexibility about the level of council tax that will be set. The MTFs therefore sets out a resource envelope within which spending would need to be constrained using a range of assumptions about council tax rises.
33. The council has a thirty year financial plan which was up-dated last year following the announcement of the results of the Comprehensive Spending Review. The council uses this to assess the longer term impact of borrowing to fund investment in council assets. Given current uncertainties about future economic conditions and the prospect of even tighter financial settlements, it is proposed not to up-date the 30 year plan until after the publication of the next spending review which is expected in 2010.
34. *Section 8* of the report deals with the Schools Budget. Brent historically spent below the amounts earmarked by government for schools and, since its introduction in 2006, Dedicated Schools Grant (DSG) for Brent schools has increased faster than the average for England in order to catch up. In 2008/09, the increase per pupil was 5% compared to 4.6% nationally. The per pupil increases for 2009/10 is 4.3% (compared to a national average of 3.7%) and has been set at 4.7% for 2010/11 (compared to a national average of 4.3%). Details of the proposed allocation formulae and costs that will be charged to central items are subject to consultation with the Schools Forum. There will be a separate report on the Schools Budget to the Executive on 16th February 2009.
35. The Housing Revenue Account, which covers the activities of the council as landlord for approximately 9,450 dwellings, is dealt with in *Section 9*. The HRA is separate from the General Fund and is ring-fenced – ie HRA expenditure is met from HRA resources, which primarily consist of government subsidy (Housing Revenue Account Subsidy) and rents. An average rent increase of 6.01% is proposed for 2009/10 in line with the government's Rent Restructuring Policy. This increase reflects inflation levels at September 2008 and planned long term convergence of rents between council rents and rents charged by Registered Social Landlords (mainly housing associations). The government has assumed this increase in determining the housing subsidy the council receives. There is a separate report to the Executive on 16th February which sets out the details of the proposed rent increase. Whilst the Executive will be asked to agree the rent increase, the overall HRA budget is part of the overall budget decision that will be taken by Full Council on 2nd March 2009.

36. The council's overall capital programme for 2009/10 to 2012/13, together with the forecast outturn for 2008/09, is dealt with in *Section 10*. It is a four year rolling programme, based on the agreed Capital Strategy. It balances the need to deliver the council's priorities as set out in the Corporate Strategy, requirements to manage and maintain the council's existing assets, and the need to limit the impact of borrowing on the revenue budget both in the short and the longer term. The overall capital programme has been set at £98.8m in 2009/10, with £79.3m spent on General Fund assets and £19.5m on HRA assets. There are a number of short term measures the council can take to bring forward capital spending to help the local Brent economy through the worst of the recession. The council has brought forward £1.430m of spending from later years of the programme on roads, pavements and infrastructure in parks. This has short term implications for the council's prudential borrowing, which is taken into account in the revenue budget forecasts, but overall levels of prudential borrowing for the four years of the programme are not affected and therefore there is no long term impact on the revenue budget. There is also funding for £3m of capital works to South Kilburn, pending redevelopment, which is being met within the Housing Revenue Account from a combination of prudential borrowing and use of HRA surpluses. The government has also encouraged councils to bring forward spending on schools by bringing forward allocation of grant and the council will be spending £3.501m more in 2009/10 on schools as a result of this.
37. Capital receipts are forecast to reduce as a result of the recession. Gross Right-to-Buy receipts were £4m in 2007/08 but are expected to be less than £1m in 2008/09 and are likely to be a similar level in 2009/10. Because the council is only permitted to use 25% of the receipts – with the balance returning to government – the impact on council resources is less than it might have been. The recession is also having an impact on non-housing receipts. Given levels of slippage that can be expected in major schemes within the programme, it is not planned to reduce the programme for these forecast reductions in receipts. However, the position will need to be kept under review and may require reductions in the capital programme in future years if receipts do not recover.
38. The treasury management strategy is set out in *Section 11*. The council currently forecasts total borrowing of £662m and total investments of £110m at 31st March 2009. The historically low level of interest rates and the uncertainties in the banking system mean that the council has had to revise fundamentally its treasury strategy. The treasury management strategy sets out how the council plans to protect itself against future banking failures and to minimise the adverse impact of reduced interest rates. The CIPFA Prudential Code for Capital Finance requires the treasury management and annual investment strategy to be approved by Full Council and this has always been done in Brent. However, recent events have highlighted the need for more Member engagement and increased accountability and *Section 11* sets out ways in which this can be achieved.
39. In addition to the requirement that councils adopt a treasury management strategy, the Prudential Code aims to ensure that councils use new freedoms to borrow introduced in the Local Government Act 2003 responsibly. It requires councils to set affordability limits on the amount of borrowing for

capital purposes, to be clear about the impact on council tax and rents of their borrowing policy, to manage their borrowing and lending in a professional way, and to ensure value for money from the use of borrowing to fund capital investments. Details of the limits set for the prudential indicators included in the Code and other ways in which the council intends to use its prudential borrowing powers are set out in *Section 12*.

40. *Section 13* provides details of the council's approach to delivering value for money. The council has been successful at meeting government targets for efficiency savings, including the efficiency target set under the first round of the Local Public Service Agreement process and the Gershon target for efficiency. In their Use of Resources judgements, the Audit Commission has given a score of 3 out of 4 on value for money provided by the council and the council's approach to delivering improvements in value for money.
41. The Medium Term Financial Strategy sets a major challenge for the council. The council has been successful through both its children's and adult social care transformation programmes at limiting the budget impact of increases in demand for services whilst ensuring outcomes for service users are maintained or improved. The council has also had a number of initiatives which have contributed to achievement of efficiency savings in the past including more efficient procurement, automation of processes, reorganisation of services and so on, and further such measures are included within the savings proposals for 2009/10. However the council is yet to take full advantage of the opportunities that are available through large scale automation of processes, consolidation of functions, and modern ways of working. In addition, there are opportunities for more fundamental reviews of the way services are delivered akin to the work being carried out as part of the children's and adult social care transformation programmes. The Improvement and Efficiency Strategy, launched in September 2008, sets out how the council plans to deliver more fundamental change in the organisation aimed at meeting the challenge within the Medium Term Financial Strategy.
42. *Section 14* deals with the procedures required to control expenditure. This includes roles and responsibilities, the arrangements for monitoring spending, and the approach to controlling the budget. The council needs to maintain spending within budget to ensure delivery of corporate and service priorities. The arrangements set out in *Section 14* seek to ensure this happens.
43. Setting the budget and council tax is one of the most important decisions Members take during the year. Decisions can affect the services received by the people of Brent and the level of council tax they pay. The legal basis on which the budget and council tax is set is also carefully defined in statute. *Appendix O* sets out advice from the Borough Solicitor on Members' individual responsibilities to set a legal budget and how they should approach this task. It is important that all Members read this advice carefully before taking part in decision making on the 2009/10 budget.