ITEM NO: 6

BRENT COUNCIL	**Executive Committee** Monday 6 October 2008 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL

2009/10 Budget Process Update and First-Stage Savings

Forward Plan Ref: F&CR-08/09-7

1.0 Summary

1.1 The Executive agreed the budget process for 2009/10 and subsequent years at their meeting on 14th July 2008. The approach adopted was a significant departure from previous years tied into the government's three year funding settlement, the development of the council's new improvement and efficiency strategy, the control of demand growth in adult and children's social care and waste management, and the use of Area Based Grant and Performance Reward Grant to fund priority growth tied in with Local Area Agreement priorities.

1.2 This the first stage of the process and includes an up-date on progress on the budget process and a proposed first tranche of budget savings which will contribute toward departmental savings targets in 2009/10.

1.3 The report also sets out a proposed approach to addressing longer term capital funding issues in relation to schools in the borough. This has been one of the most intractable areas to address in the council's capital programme. The intention is to provide a strategic framework within which the difficult issues the council faces in this area – particularly the need to address the need to provide places for growing number of children within the borough- can be addressed. The proposed way forward has been discussed at the Schools Forum and their comments on it are included in this report.

2.0 Recommendations

The Executive is asked to:

2.1 Agree the 2009/10 savings in Appendix A and agree that, where possible, these will be brought forward to 2008/09.

2.2 Agree the approach set out in paragraph 4.7 of this report as the basis for developing a 10 year capital programme for schools in consultation with the Schools Forum.

3.0 Revenue budget developments

Approach agreed in July 2008

3.1 The report to the Executive on 14th July set out the following measures to reduce the budget gap for 2009/10 and subsequent years identified within the council's Medium Term Financial Strategy (MTFS):

a. The delivery of 3% savings in 2009/10 and 2010/11 in all service areas other than (1) where 'invest to save' monies had to be paid back – children's social care and One Stop Shop; (2) adult care services where the expectation was that transformation would be used to prevent the need for growth funding and it was not considered realistic to in addition require budget savings; and (3) waste management, where the focus is on finding ways of offsetting the growth of some £2m in central items arising from increases in land-fill tax of £8 per tonne per annum and increased costs of land-fill and other disposal contracts which impacts on the levy from West London Waste.

b. The implementation of a cap on funding available to meet 'inescapable growth' of £2m per annum;

c. An initial review of central items to up-date assumptions in the budget;

d. Removal of provision for funding priority growth within the mainstream budget, with all priority growth funded from either Area Based Grant funding or, on a one-off basis, from the revenue element of Performance Reward Grant resulting from achievement of stretch targets within the council's Round 1 Local Area Agreement;

e. Use of the capital element of Performance Reward Grant to fund 'invest to save' schemes.

3.2 The consequence of these measures was a significant reduction in the budget gap from that set out in the council's MTFS agreed at Full Council in March 2008. The revised gap, which is set out in Table 1 below, assumes that (1) the council can contain growth in adult care costs; (2) children's social care and One Stop Shop can deliver savings set out in their 'invest to save' programmes, and (3) all other service areas can deliver 3% per annum savings as part of the improvement and efficiency strategy.

Table 1 Projected budget gap (July Executive)

Year	Revised cumulative budget gap assuming:		
	5% council tax rise	**2.5% council tax rise**	**0% council tax rise**
	£m	**£m**	**£m**
2009/10	2.3	4.8	7.2
2010/11	0.7	5.9	10.9
2011/12	(3.3)	4.8	12.5

3.3 This still left a gap that Members would need to consider as the budget process developed. Measures could include for example:

a. Reductions in the £2m contingency for 'inescapable' growth (eg by requiring services to meet contractual inflation above 2% within cash limits);

b. Reductions in growth provided for central items (eg achieving reductions in waste tonnages);

c. Using growth in Area Based Grant and/or Performance Reward Grant to reduce council tax increases rather than support achievement of LAA priorities;

d. More radical changes to service provision through the Improvement and Efficiency programme or stopping provision of low priority services

Factors impacting on budget projections since July 2008

3.4 There are a number of external and internal risk factors which could affect the budget gap. These are as follows:

a. <u>External pressures:</u>

i. Inflation. The annual increase in the Consumer Price Index has risen to 4.8% and the RPI-X to 5.2% and is expected to rise further in September before falling quite sharply in the autumn. This compares with increases in Formula Grant from government of 2% in the current year, 1.75% next year, and 1.5% in 2010/11. The increased inflation affects all costs incurred by the council but has a particularly adverse effect where contract costs are linked in to RPI or increases in fuel costs (eg the waste contract).

ii. Economic downturn. This affects income generating areas – land searches, planning income, commercial rents – and pressure on demand led services such as temporary accommodation and housing benefits. So far the largest impact has been on land search income which is showing a projected shortfall in the current year of £400k which may continue to be an issue in 2009/10.

iii. Turmoil in the financial markets. Current high levels of short term interest rates and low levels of long term interest rates have enabled the council to insulate itself to a large extent against future interest rate changes by borrowing long term at low rates and also lending surplus cash over a one to three year period (for which rates are highest) up to the council's agreed limit on lending over 1 year. The council's net capital financing costs should therefore be below budgeted levels in 2008/09 and this should continue to be a benefit in 2009/10. The bigger threat is to the council's Pension Fund which is due to be valued in 2010. Volatility in stock markets and exchange rates has affected returns and it is possible that the contribution to the Pension Fund will have to be increased following the valuation, affecting budget projections from 2011/12 onwards.

iv. Deterioration in public finances. Formula grant, Area Based Grant and most specific grants are fixed for three years until 2010/11. Despite the worsening of the government funding position, it is unlikely that these fixed allocations will change although there is likely to be an impact when the new Spending Review has an effect from 2011/12. It also appears unlikely that the government will make further reductions in the ceiling for housing benefit subsidy on private sector properties leased directly by the council. There will remain pressures from known government funding changes including reduction in the level of subsidy for housing benefit administration and the increase in land-fill tax. There are also unlikely to be additional government resources should new pressures arise.

b. Internal pressures

i. Current year monitoring. The latest position on the 2008/09 budget was reported as part of the quarter 1 Performance and Finance Review report to the Executive on 9th September. Balances are currently forecast at £2.065m below the target level of £7.5m. Measures are being taken to address this shortfall but this remains a major risk area. If balances are not at their target level at 31st March 2009, the budget gap for 2009/10 would increase.

ii. 'Inescapable growth'. The £2m allowed in the budget is significantly less than 'inescapable growth' funded in previous years. The adequacy of it depends in particular on the successful continuing delivery of the 'invest to save' programme in children's social care, the delivery of transformation savings in adult social care to offset growth, and the impact of inflation on contractual arrangements.

iii. Budget savings. First stage savings have been identified in this report but they are below the 3% savings targets for the individual service areas. Whilst each of the areas has a strategy for delivering the balance of 3% savings required for 2009/10 and further 3% savings required in 2010/11, achievement of this higher level of savings is challenging particularly since it follows a number of years in which savings targets have had to be achieved. The development of the council's new improvement and efficiency strategy is aimed at helping this process.

3.5 At this stage it is felt that there is insufficient information to change any of the underlying budget assumptions for 2009/10 and 2010/11 but these areas will have to be monitored closely.

Savings options

3.6 In line with the approach set out in the July report, a first tranche of savings has been identified for 2009/10 and details are provided in Appendix A. Agreement by Members will enable a reasonable timeframe for planning and implementation for a full year effect in 2009/10. Early implementation in 2008/09 for some items will help address the projected shortfall in the current year (para 3.4(b)(i) above) and may contribute to balances being above the target £7.5m at the end of the year.

3.7 The reductions in Appendix A are £1.9m less than the amount required to achieve the 3% savings within service area budgets in 2009/10. Further work is being undertaken on identifying measures to achieve the additional savings and to identify the means for achieving required savings in 2010/11. These measures will take into account opportunities developed through the council's improvement and efficiency strategy. As part of this, the One Council approach will be looking at ways in which barriers to improvement and efficient working caused by professional and departmental boundaries can be removed, whilst the programme of fundamental reviews of direct services will be identifying ways in which innovative approaches and new ways of working can deliver improved customer service at less cost.

Budget timetable

3.8 Appendix B of this report has an up-date of the timetable included in the July report.

4.0 Longer term funding issues for the schools capital programme

Background

4.1 Council funding for the schools capital programme changed following the introduction of prudential borrowing powers in the Local Government Act 2003. Prior to that, the council's spending on the schools capital programme was restricted by tight controls by government which dictated the amount the council could borrow. The introduction of the prudential regime for borrowing meant that the council could borrow additional amounts over and above those permitted by government so long as it complied with the prudential code which required assessment of affordability of the borrowing to the council alongside other things.

4.2 The council welcomed the additional flexibility that the new borrowing powers provided it. It developed a thirty year financial plan which demonstrated that levels of borrowing in excess of the amount that the government provided grant support for was possible. From 2004/05, when the prudential borrowing power came into effect, the council used the ability to borrow beyond government limits to support increased investment in roads, affordable housing, and schools.

4.3 A number of factors have affected the affordability calculation which means that the council can no longer afford the level of prudential borrowing it introduced in 2004/05. These include:

a. Introduction of a tight capping regime that means that council tax cannot be increased by more than 5% each year, together with increasing concensus between political groups that above inflation council tax increases should if possible be avoided;

b. A tightening government grant regime which means that government grant for non-schools activities increases each year by significantly below inflation – 2% in 2006/07, 2.7% in 2007/08, 2% in 2008/09, 1.75% in 2009/10, and 1.5% in 2010/11;

c. Removal of the adjustment to grant to fund so-called supported borrowing. This means borrowing costs associated with supported borrowing have to be met from the grant floor set out in b. above;

d. Significant additional spending pressure on the council's budget, including increased numbers of continuing care cases, demographic pressure on adult social care, increases in land-fill tax and shortage of land-fill, and costs associated with a growing population for which there is no recognition within the government grant regime (unlike schools for which grant increases reflect increased pupil numbers).

4.4 Together the changes to the funding position outlined in paragraph 4.3 mean that the council has had to scale back its level of prudential borrowing significantly and is likely to have to do so further in future years as it seeks to match spending to resources that are available.

Challenges

4.5 There are a significant number of challenges which the schools' capital programme faces in the longer term, including:

a. meeting the need for additional schools places in the borough;

b. meeting any shortfall in the funding available for the Primary Capital Programme (PCP);

c. ensuring adequate resourcing of Building Schools for the Future (BSF) for secondary schools;

d. providing an improved special needs (SEN) offer within the borough in order to (1) meet the needs of special needs children within the borough; and (2) reduce pressure on the revenue budget from out-of-borough placements;

e. meeting the requirement to provide Phase 3 children's centres, to improve technology in schools, and to deliver the extended schools programme;

f. ensuring that conditions issues are addressed (recognising that a significant number of these may be addressed in the medium to longer term through the PCP/BSF/special needs programmes);

g. ensuring school buildings are suitable to meet changing curriculum requirements;

h. meeting potential shortfalls in funding required for specific elements of the programme eg land at John Kellys.

4.6 There is however a significant amount of resource available (or potentially available) to support the programme. This includes:

a. government grant for the PCP, BSF, SEN, Phase 3 children's centres, technology and extended schools;

b. Academy funding;

c. section 106 funding/developer contributions;

d. capital receipts;

e. borrowing by the local authority charged to the General Fund or the Schools Budget (subject to Schools Forum agreement);

f. devolved capital funding for schools;

g. school balances;

h. borrowing by schools under the schools loan fund.

Proposed approach to addressing these issues

4.7 In order to address these issues, it is proposed that the following principles be applied:

a. the schools' capital programme is extended to a 10 year time span to reflect the longer term nature of the PCP and BSF;

b. the council continues to maximise contributions to school schemes from related developments, including an element of ring-fencing of capital receipts (eg as in the case of the Oriental City and Stonebridge developments);

c. the council continues to put its own funding to the capital programme at the level set out in the government's supported borrowing figures, with capital financing charges being met by the General Fund;

d. the extended schools, Phase 3 children's centres and IT programmes are self-contained and do not make additional call on resources beyond those allocated by government (although wherever they can be, these programmes should be tied into other programmes to maximise effectiveness of resource utilisation);

e. the current SEN capital programme is reviewed with a view to developing a more ambitious scheme aimed at reducing the number of children with SEN educated out-of-borough. His would be funded from:
    i. existing funding within the capital programme for SEN schemes;
    ii. £8m Targeted Capital Funding from government;
    iii. any capital receipts generated as a result of a more fundamental revision to the programme;
    iv. additional prudential borrowing with funding costs being met from savings within the Schools Budget as a result of reduced costs of out-of-borough placements;
f. the Primary Capital Programme be funded from a combination of:
    i. government grant funding (taking account of funding likely to be available over the whole period of the programme);
    ii. unallocated funding within the mainline capital programme for hut replacements;
    iii. developer and other contributions on major developments eg Stonebridge and Oriental City;
    iv. other section 106 funding;
g. Building Schools for the Future (subject to a successful bid) being funded from:
    i. government grant funding (taking account of funding likely to be available over the whole period of the programme);
    ii. other funding available through for example the Academy programme;
    iii. developer and other contributions on major developments eg Stonebridge and Oriental City;
    iv. other section 106 funding;
    v. a £500k per annum contribution in the council's general fund revenue budget and £140k per annum contribution in the capital programme toward funding of the project team/development of the programme;
h. conditions/suitability work to schools:
    i. linked closely into the above programmes to avoid unnecessary conditions/suitability work at schools which are due to be remodelled as part of the SEN/PCP/BSF programmes;
    ii. as far as possible being funded from a combination of:
        1. Devolved Capital Funding;

2. Salix funding (boiler and other schemes which lead to better energy efficiency);
3. Schools loan fund where there is a revenue saving to the school as a result of a scheme (eg could be combined with Salix funding on boiler schemes);

iii. topped up by council borrowing up to the supported borrowing limit insofar as it is not needed for other purposes within the capital programme (eg to supplement PCP or BSF resources);

i. if there is an overall shortage of funding taking account of (a) to (h) above:

i. the programme is re-phased over a longer period;

ii. the Schools Forum agrees to additional prudential borrowing with resulting capital financing charges charged to the Schools Budget.

4.8 This approach was discussed at the Schools Forum on 24th September. The Schools Forum supported further work being carried out but felt that there was insufficient detail at this stage for them to commit to the specific funding approaches proposed.

Taking this forward

4.9 In order to take this forward:

a. More detailed work will be carried out on developing a 10 year programme;
b. Discussions will be held with head-teacher representatives on the possibility of making more effective use of Devolved Capital Funding to meet collective needs of schools for additional capital spending
c. The Schools Forum will be asked to consider specific proposals for growth in the central element of the Schools Budget to fund additional unsupported borrowing for the schools capital programme as part of future consultation on use of the central element of the Schools Budget.

5.0 Financial Implications

5.1 These are contained within the detail of the report.

6.0 Legal Implications

6.1 There are no direct legal implications from the recommendations in this report.

7.0 Diversity Implications

7.1 Service areas will need to ensure that the measures taken to achieve the proposed savings are carried out within the context of the council's overall equal opportunity policy and approach. Where appropriate, the savings put forward in Appendix A will need to be subject to an Impact Needs and

Requirements Analysis (INRA) prior to implementation.

8.0 Background Papers

1. Budget process 2009/10 – Executive 14th July 2008
2. 2008/09 Budget Report (Section 7: The Future – Medium Term Forecast)
   - Full Council 3rd March 2008

9.0 Contact Officers

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Appendix B

SERVICE AND BUDGET PLANNING TIMETABLE FOR 2009/10

Date	Action
May	CMT sign-up to proposed budget strategy
June/July	Bi-lateral meetings between Finance & Corporate Resources and service areas to review approaches being taken in service areas to deliver the budget strategy
July	2007/08 Performance and Finance Review outturn report to Executive
July	Executive and Budget Panel receive budget strategy report
16-17 July	First service and budget planning away-days
July	Service planning and budget guidance issued
August/ September	Work on formulating draft budgets
September	First stage ‘star chamber’ meetings between lead members, F&CR and service areas
September	Report to Executive on Performance and Finance Review 2008/09 – 1st Quarter
Early October	Budget Panel meeting considers first stage savings prior to report to Executive
October	Executive agrees first stage savings
15-16 October	Second service and budget planning away-days - issues to be considered as part of First Reading debate put forward
October/ November	Service areas continue to develop proposals for achieving 3 year budget targets
Mid-November	Service areas and units begin process of developing service plans for the following year.
21 November	Budget Panel receives and discusses 1st reading debate papers
26 November	Full Council. First reading of Policy Framework and Budget
December	Schools Forum meets to agree funding formula and budget issues
December	Report to Executive on Performance and Finance Review 2008/09 – 2nd Quarter
December	Executive sets Collection Fund surplus/deficit
Early December	Second stage ‘star chamber’ meetings
December/ January	Budget Panel collects evidence
December/ January	Consultation with residents, businesses, voluntary sector, partner agencies and trade unions on budget proposals.
Mid December	Confirmation of the following year’s funding from central government

Date	Action
Mid December	Release of the Mayor’s consultation draft GLA budget
December	PCG review star chambers and latest budget position.
December/ January	Capital Board recommends proposals for 4 year capital programme
January	Area Consultative Forum meetings – budget included as item on agendas
January	General Purposes Committee agrees Council Tax base
January	Budget Panel collects evidence and discusses 1st interim report
January	Greater London Assembly considers draft consolidated GLA budget
End of January	PCG agree budget proposals to be presented to February Executive.
Early February	Schools Forum meets to agree the recommended Schools Budget
Early February	Budget Panel receives budget proposals prior to the Executive. Discusses second interim report.
February	Budget Book papers distributed to service areas and corporate units.
February	Executive considers and announces administration’s final budget proposals, agrees fees and charges for the following year and agrees savings/budget reductions for the HRA budget report as well as the overall average rent increase.
Mid February	GLA budget agreed
Late February	Budget Panel receives the outcome of Executive’s budget report and agrees a final report
March	Full Council agrees budget with final service plans
March	Service areas return completed budget book papers
March	Service plans and corporate budget book published