

## **SECTION 3**

### **3. THE BUDGET MAKING PROCESS**

#### **Main Functions of the Budget**

- 3.1 The council prepares its budget every year to enable decisions to be made within the deadlines laid down by statute and to aid its financial planning. The budget fulfils five main purposes:
- to set the level of council tax;
  - to prioritise resources;
  - to authorise expenditure;
  - to provide a base to control expenditure and income;
  - to set a target against which achievement and performance can be measured.
- 3.2 In determining the level of budgets for each service the council has to take account of the following factors:
- the level of government grant;
  - pay and price increases;
  - new statutory responsibilities;
  - demographic change;
  - corporate policy growth requirements;
  - changes in levying and precepting bodies' requirements.
- 3.3 Each of these factors has a major impact on the level of resources required or available and is reported more fully in the following pages of the report.
- 3.4 Frequent monitoring of the budget is important to ensure that no overspends occur which could endanger the council's financial stability. For this reason regular monitoring reports are required to be submitted at least quarterly to the Executive and potentially Full Council throughout the year. Service directors are clearly aware of their responsibility to control their budgets within the cash limited targets set for them. Section 12 deals with the arrangements for controlling expenditure.

#### **Policy Framework**

- 3.5 Members have agreed, within the framework of the Medium Term Financial Strategy (MTFS), a set of guiding principles for establishing a balanced budget. These include:
- a redirection of resources to contribute to the achievement of the council's key priorities contained within the Corporate Strategy;

- to plan to meet best value requirements and to allow allocation of growth to priorities by assuming 2% efficiency savings in each financial year;
- protection of balances from erosion by ensuring that every decision to release balances is accompanied by a decision to replenish them;

3.6 This approach was confirmed by Full Council at its meeting on 1st March 2004 when it not only set the budget for 2004/2005, but set out indicative cash limits for 2005/2006 to 2007/2008 that sought to meet the requirements of the MTFs. Draft service development plans and budgets have been prepared within these cash limits subject to amendments for technical adjustments and virements. These cash targets assume and incorporate:

- (i) Growth proposals
  - Growth agreed as part of the 2004/2005 budget process. This included the full year costs of 2004/2005 items. These items were subsequently re-considered along with all other growth bids.
- (ii) An allowance for inflation
  - Budgets were prepared at outturn prices (i.e. effectively a cash limit) and include an allowance of 2.95% for pay and an appropriate allocation for price rises (generally 2%) for 2005/2006 and 2006/2007 (with 3% for pay in subsequent years).
- (iii) Savings target
  - After allowing for the above increases, a 2% savings target excluding the Individual Schools Budget (ISB).

3.7 However, there are a number of growth pressures and priorities in the 2005/2006 budget which were not included in the original cash limits. This is primarily because they were not necessarily evident when the cash targets were set as part of the 2004/2005 budget process. For example they may relate to increased demand for a service or new government requirements. The council will have to fund some of these growth items because the expenditure cannot be avoided. Other “bids” submitted would generate desirable service improvements but the council is not necessarily required to resource these. There are also growth items in the original cash limits which are not now considered priorities, and have been taken as savings. Details were set out in the First Reading report and service development plans (SDP’s) and Members may wish to consider their priorities for services for which they would wish additional support to be directed.

### **Service Development Plans (SDPs)**

3.9 In producing SDPs, service areas had to reflect recent changes in the council’s approach to managing its performance and to place a greater emphasis on planned actions to achieve continuous improvements in service standards while delivering the Corporate Strategy 2002-2006 objectives. Officers issued the guidance document “*Service Development Planning and Budget Guidelines 2005/2006 - 2008/2009*” to all units in July 2004. This

provided the framework for the reports and service development plans and budgets presented to the Executive on 13<sup>th</sup> December. Each SDP was required to include the following main sections:

- (i) Introduction and context for the service;
- (ii) Planned service improvements, built on the Brent Action Plan 2004-2006; and
- (iii) Monitoring and target setting.

### **The Consolidated Budget Position**

- 3.10 Each service area's budget and service development plan were prepared by October and then reviewed by leading Members prior to consideration by the Executive on 13<sup>th</sup> December.
- 3.11 The budget forecast was updated as new information was received. The announcement of the potential levels of government support (see section 6) was the most fundamental.
- 3.12 A "*first reading debate*", applying to both the budget and policy framework was held at the Council meeting on 29<sup>th</sup> November. A number of proposals for the budget were put forward by Members at that meeting and these are attached at Appendix E.
- 3.13 In the past two years, Overview Committee considered the 'draft' budget after the "*first reading debate*" but before the Executive agreed its budget proposals to Council. In addition, there would be a separate meeting of Performance and Finance Select Committee to consider the budget. Under changes to the Constitution agreed by Full Council on 29<sup>th</sup> November 2004, the roles of Overview and Scrutiny have been merged so that there is just one joint meeting of those committees at the optimal time in the calendar to best scrutinise and influence the preparation for the budget ie after the Executive has produced its draft budget proposals.
- 3.14 The final stages of agreeing the budget and setting the council tax are as follows. The Executive is considering this report at its meeting on 14<sup>th</sup> February. The Executive's proposals will be incorporated into the report for Full Council on 28<sup>th</sup> February, together with the precept from the GLA which is being considered at the same time as this meeting. Overview and Scrutiny Committees will receive this report and a copy of the Executive's budget proposals for consideration at a joint meeting scheduled for 22<sup>nd</sup> February. The draft minutes of the joint meeting will be circulated to Full Council before its meeting on 28<sup>th</sup> February.

### **Budget Consultation 2005/2006**

- 3.15 The corporate assessment carried out by the Audit Commission in 2002 found Brent Council to be strong at consultation. The Citizens' Panel, user consultation meetings, the results of user surveys and engagement by services with their users all help to inform the council of the priorities that

Brent residents think are important. The council engages with partners through the Local Strategic Partnership and a variety of other forums such as the Schools' Forum as well as directly in one-to-one meetings, for example, with the Primary Care Trust. Again this engagement makes a major contribution to helping the council determine its priorities.

- 3.16 Brent, along with other councils, has however found it difficult to engage residents directly on overall council budget issues. The result is that there has been no interest shown in the overall budget decisions at user forums or, following contact by the council, from business rate-payers.
- 3.17 The last time the council directly asked residents about budget issues was in a postal survey of the Citizens' Panel carried out during July and August 2003. 510 responses were received - a response rate of 24%. At the time, 68% of residents wanted improvements in services but only 10% said they would be willing to pay more council tax for those improvements. Residents were more evenly divided on the issue of paying increased direct charges (eg charges for use of leisure facilities) with 33% saying they would be willing to pay more for improvements to services they use and 40% saying they would not.
- 3.18 The Association of London Government carries out an annual survey of residents across the 33 London boroughs which gives additional information on priorities of London residents. In the 2004 survey, the level of council tax was the second biggest issue of concern, mentioned by 31% of those surveyed – with the biggest issue of concern being crime, mentioned by 49%. The 31% figure was however a reduction compared to 2003, the year in which council taxes generally increased significantly, when 36% mentioned council tax.
- 3.19 Budget choices are about spending and not just council tax. The council's priorities were set in the Corporate Strategy agreed in 2002 following extensive consultation. The council remains informed about what local people think through area forums, user forums, housing area boards etc. Councillors remain informed about the priorities of their constituents through local work within their wards. The introduction of Ward Working in 6 pilot areas has provided extra opportunities for residents to let their priorities be known. This patchwork of consultation all contributes to the prioritisation process as part of the budget.
- 3.20 The council has also consulted the Schools' Forum specifically on its proposals for the Schools' Budget. The Forum was set up under the provisions of the 2002 Education Act. Its terms of reference were agreed by the Executive on 17<sup>th</sup> September 2002. The minutes of its meeting on 6<sup>th</sup> December are attached at Appendix E where it considered the Schools Budget. The Forum approved the Schools' Block Budget for 2005/2006 at the passporting level set by government. Changes to the allocation formula were also agreed and recommended to the Executive (see separate Schools' Funding Formula Review 2005/2006 report on your agenda). There was discussion about the possibility of allocating a further £500,000 to the primary

sector in addition to the impact of the formula changes already recommended. Exemplars showing the impact of this have been sent out to schools (see Schools Funding Report). The Forum was due to meet again on 9th February to discuss this issue further and draft minutes from that meeting will be circulated at your meeting.