

SECTION 5

5. THE 2010/11 REVENUE BUDGET REQUIREMENT

Introduction

- 5.1 This section details the proposals for the 2010/11 General Fund revenue budget.
- 5.2 The strategic context for the budget proposals for 2010/11 was set out in Section 3 on the budget process. The budget proposals in this section are intended to form the basis for delivering priorities of the council in the context of the Medium Term Financial Strategy. These are set out in the Corporate Strategy 2006-10, with the aim being to make Brent a Great Place, a Borough of Opportunity and One Community. Appendix J sets out priorities within the Corporate Strategy and the way in which resources are being used to help deliver these.
- 5.3 In his report to the First Reading Debate at Full Council on 23 November 2009, the Leader of the Council stated that the key priority of the Administration for 2010/11 will be to deliver on the Improvement and Efficiency Action Plan ensuring that savings are captured and, as importantly, that services to the public are improved.
- 5.4 This budget seeks to achieve these priorities, and maintain focus on the four main themes of this Administration - crime and community safety, young people, sustainability and regeneration - by:
- a. sustaining investment in those areas allocated additional resources in earlier years, including an improved street cleansing service, increased recycling, additional Police Community Support Officers, and improved youth services;
 - b. putting additional mainstream council resources into helping ensure children at risk are protected;
 - c. targeting additional resources available through Area Based Grant, Performance Reward Grant, and specific grants at support for volunteering, sport and other activities for young people, prevention of domestic violence, support for individuals to ensure they maximise allowances and other benefits, and initiatives to promote sustainability;
 - d. providing the investment required to support the changes needed to deliver the Improvement and Efficiency Action Plan; and
 - e. ensuring budget reductions are primarily achieved through efficiency measures.
- 5.5 In order to deliver corporate and service priorities, the budget needs to be robust and sustainable. And Members also need to balance the interests of service users and tax-payers. So, Members need to consider:

- a. The balance between spending and council tax;
- b. The purpose and impact of budget growth proposals;
- c. The deliverability and impact of budget savings proposals;
- d. The adequacy of budget provision for central items;
- e. The sustainability of the overall budget in the current year, including consideration of risks and the appropriate level of balances; and
- f. The sustainability of the overall budget in future years, taking account of future commitments, the delivery of Corporate Strategy priorities, and the likely availability of resources.

5.6 Under the Local Government Act 2003, the chief finance officer of the authority (in Brent's case, the Director of Finance and Corporate Resources) must report on the robustness of the estimates made in the annual budget calculation, together with the adequacy of financial reserves. The budget proposals in this section have been developed following guidance from the Director of Finance and Corporate Resources and have been through a robust process of development and challenge. The Director of Finance and Corporate Resources is therefore confident about the robustness of the estimates. In addition, the level of balances recommended for 2010/11 of £7.5m is, in the Director of Finance and Corporate Resources' view, sufficient to allow for the risks identified and to support effective medium term financial planning.

5.7 This section of the report sets out:

- Movements since the First Reading Debate;
- Service area budgets;
- Proposed use of Area Based Grant, Performance Reward Grant and specific grants to support growth;
- Provision for central items within the budget;
- Forecast performance and activity levels;
- The main risks within the budget;
- The level of balances Members are recommended to agree; and
- The statutory calculations required for gross expenditure, income, and overall budget requirement.

5.8 The budget requirement that results from the proposals in this section is £265.469m (see Appendix B). After allowing for Brent's share of the deficit in the Collection Fund of £1.162m, this would produce a Council Tax at Band D for Brent services of £1,058.94, which is the same as for 2009/10. Details of the council tax calculation, and the GLA precept, are given in Section 6 below.

Movements since the First Reading Debate

- 5.9 The First Reading Debate report of the Director of Finance and Corporate Resources to Full Council on 23 November 2009 set out progress on the budget. The projected budget requirement for 2010/11 at that stage was £274.347m which was above the affordable level. The projections assumed a 1.5% increase in Formula Grant which was subsequently confirmed in the local government finance settlement and built in provision for 'inescapable growth' of £3.849m. In line with the current medium term financial strategy service priority growth was to be linked to the Local Area Agreement and funded from growth in Area Based Grant and specific grants, together with one-off Performance Reward Grant.
- 5.10 The report also set out a series of measures aimed at reducing the projected budget requirement. Details of the progress that has been made are set out below:

a. Surplus carried forward from 2009/10

Balances at the end of 2009/10 are forecast to be £8.908m (see Section 4 above). On the basis of the assessment in this section that the minimum prudent level of balances in 2010/11 is £7.5m, this allows £1.408m to be released to support the budget. Use of balances is one-off and the effect in subsequent years is built into the Medium Term Financial Strategy in Section 7.

b. The provision for 'inescapable growth'

Provision was made in the First Reading Debate report for £3.849m of 'inescapable growth' - growth arising from demand pressures, price increases above inflation, or loss of income. Of this amount £2.038m was for items previously identified in the Medium Term Financial Strategy (MTFS). These items have been reassessed based on updated information which has enabled reductions in the provision for temporary accommodation (by £187k), land charges (£50k) and HRA recharges (£360k).

There are a number of items that require additional funding, which are detailed below:

Children's Social Care – Additional funding of £2.297m is required to deal with pressures on budgets for children with disabilities, social care placements and the impact of the "Southwark judgement" that care for homeless 16/17 year olds should be provided under the Children's Act.

Adult Social Care – A total of £1.655m is required to meet additional costs of inflation on care purchasing contracts, growth in the number of learning disability clients and the cost of reprovision of residential and respite care services for people with learning disabilities.

Environment & Culture – An additional £1.016m is needed in total to cover the forecast loss of income on the parking account, the need for additional organic waste collections and increased business rates for Willesden Green Library Centre.

Housing Benefits – A further £500k is required to meet the increased level of overpayments arising from the overall increase in housing benefit payments.

Total 'inescapable growth' is now £6.909m which is £3.060m more than the £3.849m allowed for in the First Reading Debate. Details of all 'inescapable growth' are included in Appendix D(i)(a).

c. Priority growth

In accordance with the current MTFs priority growth expenditure funded from the LAA performance reward grant will total £1.245m. It is proposed that an additional £100k is added to the budget for the library book fund. The schedule of priority growth is set out in Appendix D(i)(b).

d. Identifying savings in 2010/11

No savings targets were set for individual service areas as part of the 2010/11 budget process. Within Environment & Culture and Children & Families actions were taken during 2009 to reduce emerging overspends in the current financial year – a number of which were permanent savings impacting on 2010/11 as well. The ongoing adult social care transformation programme will deliver further savings, as service provision moves to an emphasis on prevention or self directed support, and these have been included in the 2010/11 budget.

Total savings amounting to £2.718m have now been identified. This includes £139k of increases in fees and charges. Details of these are included in Appendix D (ii) and (iii).

e. Central items

There has been a reduction in the funding required for central items since the First Reading Debate of £1.065m. The main reasons for this are reduced estimates of capital financing charges, levies and South Kilburn expenditure. These were partly offset by the impact of the transfer of concessionary fares grant funding from London. Details of central items are included in Appendix F.

f. Other adjustments

There have been some other adjustments to the budget:

- Savings of £2.014m from the deletion of 50 management posts during 2009/10. This action reflected the high level findings of the PwC review of staffing and structure which showed that the council had low ratios of

managers to staff compared with best practice. The majority of posts affected were vacant.

- Savings of £200k from the consolidation of the communications function across the Council. The proposed new structure will allow for communications to be more responsive and effective, stopping low-level reactive work, delivering focused internal communications, and remove duplication of publications and effort.
- Savings of £150k following the introduction of a new system of e-recruitment which is bringing savings in the cost of arranging and placing job adverts in the press.
- Additional area based grant (£376k) and technical transfers to service area budgets (£258k)

g. Improvement and Efficiency Action Plan

It is anticipated that the projects within the action plan will deliver net reductions of at least £4.365m in 2010/11. Further details are set out in Section 13 and this has been included within the budget at Appendix B.

5.11 The projected budget included in the First Reading Debate was £274.347m. The result of the changes outlined in paragraph 5.11 is to reduce this by £8.878m to £265.469m. The changes are summarised in Table 5.1 below.

Table 5.1 Revised projected budget gap for 2010/11

	£m
Projected budget requirement in First Reading Debate	274.347
Surplus carried forward from 2009/10 (para 5.10(a))	(1.408)
Inescapable growth (para 5.10(b))	3.060
Additional priority growth (para 5.10(c))	0.100
Savings (para 5.10(d))	(2.718)
Central items (para 5.10(e))	(1.065)
Other Adjustments (para 5.10(f))	(2.482)
Improvement and Efficiency Strategy (para 5.11(g))	(4.365)
Budget recommended in this report	265.469

2010/11 Service Area Budgets

5.12 The process for developing service area budgets, including provision made for pay and price inflation, the development of growth and savings proposals,

and the links to the Corporate Strategy and service planning, has been set out in Section 3 above.

- 5.13 The revised service area budgets are in Appendix C; the growth items are in Appendix D(i); the savings items are in Appendix D(ii); fees and charges are in Appendix D(iii); and other adjustments within the service area cash limits are in Appendix D(iv). They incorporate the additional growth items in paragraph 5.11 (b) and the additional savings items in paragraph 5.11 (c).
- 5.14 Table 5.2 below summarises the changes in budget at service area level between 2009/10 and 2010/11.

Table 5.2 Service Area Budgets

	2009/10 Revised Budget £'000	Agreed Growth £'000	Savings £'000	2010/11 Budget Before Ad'jts £'000	Change 2009/10- 2010/11 %	Other Adj'ts £'000	2010/11 Budget £'000
Children and Families	59,261	2,368	(1,085)	60,544	2.2	(399)	60,145
Environment and Culture	48,362	1,336	(535)	49,163	1.7	(304)	48,859
Housing and Community Care:							
- Housing	14,136	788	(80)	14,844	5.0	12,821	27,665
- Adult Social Care	87,550	1,655	(1,018)	88,187	0.7	101	88,288
Finance & Corporate Resources / Central/ Business Transformation	25,774	762	0	26,536	3.0	(744)	25,792
Total Service Area Budgets	235,083	6,909	(2,718)	239,274	1.8	11,475	250,749

Member decisions on service area budgets

- 5.15 Members are asked to agree the service area budgets set out in Table 5.2 above and detailed in Appendix C.

Proposed use of grants to support growth

- 5.16 The budget strategy agreed by the Executive in July 2009 proposed use of Area Based Grant, Performance Reward Grant, and other specific grants to fund priority growth. Details of the Area Based Grant and specific grants are included in Appendix D (v). The introduction of ABG has provided councils flexibility to use grant funding to meet local priorities although the grant does include indicative allocations. As part of the council's current budget strategy it was agreed to freeze ABG allocated to services at its existing level (or reduced level where funding was being phased out) pending a review of use of the funds.
- 5.17 Area Based Grant (ABG) will increase from £16.405m in 2009/10 to £28.578m in 2010/11. Other specific grants will decrease from £60.928m in 2009/10 to

£52.694m in 2010/11. The biggest change has been the transfer of supporting people funding of £12.807m from a specific grant to ABG.

5.18 Areas of growth include:

- One to one tuition – an increase of £775k;
- Extension of the children’s centre offer – an increase of £1.001m;
- Aim Higher funding – an increase of £607k;
- Funding to support schools achievement by children from ethnic minorities - an increase of £405k;
- Extended schools – an increase of £1.164m;
- Social care reform – an increase of £240k;

5.19 In addition, the council anticipates that it will receive £7.286m of Performance Reward Grant following achievement of stretch targets included within its first Local Area Agreement which ran from 2006/07 to 2008/09, half of which will be revenue and the remainder capital. The grant will be payable in two instalments in 2009/10 and 2010/11.

5.20 It was agreed that the capital element of the grant is used to fund ‘invest to save’ schemes as part of the council’s Improvement and Efficiency Programme. Proposed use of the revenue funding is set out in Appendix D(i)(b). It includes support for delivery of Local Area Agreement priorities, funding for additional costs incurred by the council as a result of recession, and provision of support to Brent residents during the recession. The LAA priorities supported from the grant have been subject to consultation with the Local Strategic Partnership. Funding of projects after 2011/12 is taken into account in the Medium Term Financial Strategy in Section 7.

Central Items

5.21 Central items are items not included in individual service cash limits. The total of central items is £51.035m in 2010/11. Further details of the items are included in Appendix F.

Member decisions on Central Items

5.22 Members are asked to agree these amounts for central items, subject to the level of borrowing in Section 10 being agreed.

Forecast Performance and Activity Levels

5.23 The council has developed its performance and finance review process to bring together finance, activity and performance monitoring in one report which goes to both the Executive and Performance and Finance Review Committee once a quarter. Appendix J(ii) includes the activity indicators which will be used to assess levels of activity that can be afforded within

allocated budgets. At this stage targets for 2010/11 for most of the indicators are being finalised through the service planning process.

Risks

- 5.24 It is important that an assessment is made of potential risks as part of the budget process. This helps the council set an appropriate level of balances and also ensures that risks can be monitored and managed effectively during the year.
- 5.25 The categories which the council uses to assess its budget risks are set out below:
- a. demand risks where the level of service provision depends on projections of need. These include children's and adults' care budgets, the temporary accommodation budget, and the waste management budget. There are also likely to be more general demand risks associated with the ongoing impact of the recession such as increased pressure on the housing benefit service;
 - b. risks from new legislation or other statutory changes, where there is some uncertainty about impact on council costs. This would include new government requirements arising from the current Personal Care at Home Bill, the ongoing impact of the Southwark judgement and changes to housing benefit subsidy for temporary accommodation following introduction of Local Housing Allowance;
 - c. risks from legal challenges;
 - d. partnership risks, which are less of a risk than in previous years now that the previous dispute with the PCT is largely resolved. However, negotiations around budget transfers and amounts agreed remain a risk;
 - e. treasury management risks. Last year, the budget report highlighted this as the biggest financial risk faced by the council. Although the council has started to receive payments in respect of the Icelandic deposits this remains a major risk. There is also the risk of increased borrowing costs should long-term interest rates rise;
 - f. procurement risks. These risks should be reduced as a result of the current market situation with opportunities to secure savings through procurement ;
 - g. pay risks. The current employer offer is that there will be no pay increase in 2010. The budget currently contains allowance for 0.75% including increments - each 0.5% above the amount provided for would cost the council £0.6m;
 - h. grant risks. These include risks arising from changes to grant conditions, the council not meeting grant conditions, or uncertainty about the amount of grant the council will receive. For 2010/11 this includes a specific risk relating to the possibility of an in-year change to the council's grant following the general election. An on-going risk area is the council's

housing benefit subsidy claim which is by far the largest single grant claim the council makes;

- i. risks of not achieving savings or income targets in the budget. The council has a good track record of delivering savings included within individual service budgets. Savings of £4.365m have been included in the 2010/11 budget for the Improvement and Efficiency Programme and despite strong governance systems the programme is ambitious and will need to deliver on time to achieve the target;
- j. asset management risks if corporate or service buildings have to be closed because of current condition;
- k. risks from natural disasters or terrorist attacks.

Risks to the capital programme are addressed in Section 10 below.

5.26 The risks are quantified in Table 5.3 below.

Table 5.3 Major Risks

	Worst case £'000	Likelihood %	Net risk £'000
<u>Demand risks</u>			
Adult care packages	3,000	20%	600
Children's care packages	2,000	30%	600
Temporary accommodation – increase in homelessness	600	15%	90
Waste	500	20%	100
Other recession related risks	500	25%	125
<u>New legislation and other statutory changes</u>			
Personal Care at Home	600	50%	300
Local Housing Allowance	500	15%	75
Safeguarding children	1,000	30%	300
<u>Legal challenge</u>			
Legal challenges – e.g. employment tribunals, contractual disputes	1,000	30%	300
<u>Partnerships</u>			
PCT transfers	1,000	15%	150
<u>Interest rate risks</u>			
Combined potential effect of reduced short term rates, additional borrowing requirement, and bank failure	8,000	30%	2,400
<u>Procurement risks</u>			
Risk that cost of social care placements may increase by more than the 1% allowed in the budget	700	20%	140

	Worst case £'000	Likelihood %	Net risk £'000
Energy risk – risk of increases in energy prices which cannot be contained in budgets	200	10%	20
Other procurement risks	300	10%	30
<u>Pay risks</u>			
Risk that increases in the annual pay budget for 2010 above the 0.75% provided within 2010/11 budgets cannot be contained	300	30%	90
<u>Grant risks</u>			
Risk of exceeding the threshold on housing benefit overpayments in 2010/11	600	20%	120
Risk of amendments to housing benefit subsidy claim	1,500	20%	300
Risk of loss of income from other grant changes	500	15%	75
<u>Savings/income risks</u>			
Risk of not achieving other savings in the budget	2,718	15%	407
Risk of not achieving savings from the Improvement and Efficiency Programme	4,365	20%	873
Risk of loss of income from ongoing impact of recession - parking charges	700	15%	105
Risk of loss of income from ongoing impact of recession - other items	600	15%	90
<u>Asset management risks</u>			
Closure of council buildings and need to find alternative accommodation	500	10%	50
<u>Major disaster</u>			
The government has a scheme (the Bellwin scheme) that covers authorities for 85% of costs of a major disaster above 0.2% of net revenue budget. The risk to the council is 100% of costs below the threshold and 15% above it.	500	30%	150
Total General Fund revenue risks			7,490

Balances

- 5.27 As set out in Section 4, the council's General Fund usable balances are forecast to be £8.908m at the end of 2009/10.
- 5.28 Councils need balances so that they can deal with unforeseen calls on resources without disrupting service delivery. The level of risk that a council assesses it faces is therefore the minimum level at which balances should be maintained.

- 5.29 Balances can also contribute to effective medium term financial planning for councils. They allow councils to adjust to changes in resources and spending requirements over a period of time (see section 7 below for the Medium Term Financial Strategy for Brent), to plan council tax rises to avoid excessive increases in any one year, and to take a more flexible approach to the annual budget cycle, for example through *invest to save* schemes. They also allow councils to respond to new demands/priorities for spending which arise during the year. This flexibility needs to be considered each year depending on the particular pressures facing the council and the outlook in the medium term.
- 5.30 Balances also have to be used carefully. They can be used only once. Decisions to use balances to fund on-going spending or hold down council tax increases can only apply for one year. In the following year, either additional budget reductions have to be made or additional council tax increases are required. There is a risk of future financial instability if significant levels of balances are used to fund on-going spending or reductions in council tax. This is particularly the case given the tight financial settlements expected in future years and pressures to keep council tax increases down, including the threat of capping.
- 5.31 Under the 2003 Local Government Act, the Director of Finance and Corporate Resources, as chief finance officer, has to be satisfied that the level of available General Fund balances is adequate. The Director of Finance and Corporate Resources advises that:
- a. The minimum prudent level of balances in 2010/11 should be £7.5m, which is sufficient to meet the revenue budget risks identified in the report;
 - b. 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;
 - c. As a general rule, Members should only plan to use balances to fund one-off spending;
 - d. 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.
- 5.32 Table 5.4 below presents the proposals from the Administration on balances in 2010/11.

Table 5.4 Proposed General Fund Balances in 2010/11

	£'000
Total Estimated Balances at 31st March 2010	8,908
Proposed use of balances to fund 2009/10 budget	(1,408)
Estimated Balances at 31st March 2011	7,500

Member decisions on balances

- 5.33 Members have to decide the contribution they wish to make to or take from balances in 2010/11 to support the General Fund revenue budget. In doing so they need to consider the advice on the factors to take into account in paragraph 5.35.

Overall Budget Requirement

- 5.34 The overall budget requirement in 2010/11 resulting from the proposals in this section is £265.469. The make up of this budget requirement is summarised in Table 5.5 (details in Appendix B).

Table 5.5 General Fund Budget Requirement in 2010/11

	£'000
Service area budgets	250,749
Area Based Grants	(28,578)
Central items	51,035
Inflation provision and growth and savings held centrally	(6,329)
Use of balances	(1,408)
Proposed budget requirement for 2010/11	265,469

Statement by the Director of Finance and Corporate Resources on the budget and balances

- 5.35 Under Section 25 of the 2003 Local Government Act, the chief finance officer is required to comment on the adequacy of the budget calculation and the level of balances proposed within a budget. The two issues are related. The less prudent the revenue provision, the less accurate forecasts of demand and risk, the higher the level of balances required to justify the budget calculations. This budget however has been carefully prepared, and while excessive provision has not been made in the budget a prudent and cautious approach has been taken. Risks have been identified and quantified. The council also has rigorous budget monitoring arrangements during the year and a policy of restoring balances once used. The combined approach means that a minimum prudent level of balances is £7.5m, which will cover the General Fund revenue budget risks identified. The Director of Finance and Corporate Resources' view is that the optimal level of balances to cover risks and allow effective financial planning, which will contribute to longer term financial stability, remains at £7.5m to £8m. The Director of Finance and Corporate Resources also advises that as a general rule use of balances should only be to cover one-off expenditure. However, given that balances overall remain above the target level set for them and that the council has in place a number of projects that will deliver savings in future years, it is proposed to use £1.408m of balances, with the impact of this one-off use of

balances taken into account in budget projections for future years in Section 7 below.

Member decisions on the overall budget

5.36 Section 32 of the Local Government Finance Act 1992 requires the council to calculate its budget requirement in terms of gross revenue expenditure, income and net revenue expenditure. For these purposes expenditure and income relating to the Housing Revenue Account is included even though it has no effect on the net revenue budget. The formal calculation, based on the budget in Appendix B, is as follows:

	£m
(a) Aggregate of the amounts which the Council estimates for items set out in Section 32(2)(a) to (e) of the Local Government Finance Act 1992.	968.430
(b) Aggregate of the amounts which the Council estimates for items set out in Section 32(3)(a) to (c) of the Local Government Finance Act 1992.	702.961
(c) Calculation of the budget requirement under Section 32(4), being the amount by which the sum aggregated at (a) above exceeds the aggregate of (b) above.	265.469

5.37 The council is not constrained by a pre-set capping limit, but the government have indicated that excessive increases will be capped. Further details are provided in Section 6.

5.38 The context in which Members are setting the budget for 2010/11 has been made difficult by the various budget pressures faced and the floor increase in government grant. Moreover the prospects for future years, set out in detail in Section 7, are challenging both because of continuing budget pressures and the lower grant increases expected in future years. The council's current financial standing is strong but the challenge will be to maintain this given the financial pressures faced in 2010/11 and future years. The council will therefore need to ensure the continuing effectiveness of its financial controls and a continuing commitment to delivering improvements in the cost effectiveness of services.

5.39 Members have a range of options available to them:

- a. they could increase the budget and council tax to invest in service priorities or remove savings items (whilst bearing in mind the potential for capping);
- b. they could agree the budget as set out in the report;
- c. they could agree further savings (provided they are satisfied that they can be achieved) in order to reduce council tax.

Within each of those overall options, Members have a choice about the combination of growth and savings items they may wish to agree.

5.40 Table 5.6 below sets out the implications for council tax of an increase (up to 3%, above which the risk of capping would greatly increase) or reduction in Brent's expenditure compared with the current budget proposal. This incorporates a GLA precept of £309.82 for 2010/11 which has been recommended by the Mayor of London and is due to be considered at the Assembly meeting on 10th February 2010.

Table 5.6 Impact of Changes to Budget Requirement on Council Tax

	2009/10 Budget	2010/11 Proposed Budget	Expenditure - £1m	Expenditure + £3.064m – up to 3% increase in CT
Brent's budget requirement (£m)	261.836	265.469	264.469	264.296
Council Tax Band D £	1,058.94	1,058.94	1,048.57	1,090.71
GLA precept £	309.82	309.82	309.82	309.82
Total Council Tax Band D £	1,368.76	1,368.76	1,358.39	1,400.53

5.41 The table illustrates that each £1m fall in expenditure decreases the council tax by £10.37 (1.0%) at Band D for the Brent element of the tax. The safe assumption around the permitted maximum increase in spending is £3.064m. This would represent a council tax increase of 3%, or £31.77 at Band D.