

LONDON BOROUGH OF BRENT
Meeting of the Executive - 15 February 2011
2011/12 BUDGET AND COUNCIL TAX

EXECUTIVE SUMMARY

1. The budget report sets out the key decisions Members are asked to make on:
 - the 2011/12 General Fund revenue budget;
 - the 2011/12 Schools Budget;
 - the 2011/12 Housing Revenue Account;
 - the Council's capital programme for 2011/12 to 2014/15;
 - 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.
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 2010/11 probable outturn for the General Fund budget is covered in *Section 3*. Balances at the end of 2010/11 are forecast at £7.261m which would be £239k lower than the target set for 31st March 2011 in the 2010/11 budget report.
6. *Section 4* deals with the key spending decisions. 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 and Finance Overview & Scrutiny Committee, and the involvement of the public and businesses. The recommended overall budget requirement for 2011/12 is £267.889m, which is 0.9% above the 2010/11 budget requirement of £265.469m. It should be noted that due to the transfer of a large number of specific grants into formula grant the headline change in the Council's budget requirement does not reflect a "like for like" change in the Council's overall spending.
7. The Budget and Finance Overview & Scrutiny Committee has held several meetings during the development of the budget and its draft recommendations are set out in their first interim report which is attached as Appendix E (ii) to this report

8. The key decisions Members need to take on the 2011/12 General Fund budget are as follows:
 - Agreeing the service area budgets for 2011/12, which are detailed in Appendix C, incorporating growth and savings outlined in Appendix D;
 - Agreeing the budget for central items for 2011/12, which is detailed in Appendix F;
 - Agreeing to an increase in the balances figure of £2.5m in 2011/12;
 - Agreeing the overall proposed budget of £267.889m for 2011/12.
9. 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.
10. Members also have to consider the impact of the budget on individuals and communities in Brent. Budget proposals are screened individually by service areas to ensure that equalities implications have been taken fully into account when making recommendations. Members also have a legal duty to ensure that 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.
11. Severe 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 2011/12 that have been identified as part of this process are as follows:
 - The "front-loading" of reductions in local government funding nationally, meaning that the Council has had to identify a high proportion of savings for 2011/12;
 - Demographic pressures and potential increase in client numbers above that allowed for in the budget;
 - The impact of the changes to the housing benefit system;
 - The continued ability of the council to offset loss of interest on balances as a result of reduced interest rates by debt restructuring;
 - The ongoing impact of the economic downturn on service income and service demand;
 - The ability of the Council to ensure that savings identified are delivered;
 - The up-front costs of restructuring the Council, including redundancy and pension costs as the Council's workforce reduces
12. The assessment of risk forms the basis for assessment of balances required. The advice of the Director of Finance and Corporate Services on balances is as follows:

- The minimum prudent level of balances in 2011/12 should be £9.5m 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, is within the range of £9.5m to £12.5m, 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 unplanned one-off spending;
 - Where Members wish to use balances to fund on-going spending or reductions in council tax, they must indicate at the time how they plan to make up the budget shortfall in future years.
13. Members should note that the budget proposals in *Section 4* include a recommendation to increase balances by £2.5m in 2011/12, and that the impact of this on future years' budgets has been built in to the Medium Term Financial Strategy in *Section 6*.
 14. The resources to fund the General Fund budget are set out in *Section 5*. Overall the Council will receive Formula Grant of £165.911m in 2011/12. After taking account of the transfer of specific grants this represents a reduction in formula grant of 11.3% from 2010/11 on a comparable basis.
 15. The council tax income requirement is £102.984m. This is based on the proposed budget requirement of £267.889m, less grant of £165.911m, with £1.006m added for Brent's share of the Collection Fund deficit. Using the council tax base of 97,252 Band D equivalent properties agreed by General Purposes Committee on 25 January 2011, the Band D Council Tax for Brent services would be £1,058.94 in 2011/12, unchanged from the figure in 2010/11.
 16. The government does not announce capping levels in advance. However it has introduced a grant (equivalent to a council tax increase of 2.5%) for those councils that do not increase council tax for 2011/12. The grant amounts to £2.585m for Brent Council.
 17. 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 23 February 2011 to consider the Mayor of London's proposal to freeze the GLA Band D precept for 2011/12 at its 2010/11 level of £309.82.
 18. 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 2011/12, the same as in 2010/11.
 19. *Section 6* 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. In December 2010 the government announced a two year settlement for local government covering 2011/12 and 2012/13. The provisional settlement for 2012/13 indicates a further 7.4% decrease in formula grant for the Council. It is anticipated that resources for 2013/14 will be based on a

completely new system of local government funding. Projections from then on can only be based on the headline national figures in the Spending Review, announced in October 2010.

20. The current economic situation makes assumptions about other variables in the budget difficult. The government's announcement on public sector pay generally is likely to mean pay increases will be limited. Uncertainty about future 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 the ability to restrict future cost increases will be dependent upon the Council's negotiations with its key suppliers. On the other hand, continuation of low interest rates will have an on-going impact on the council's interest on balances.
21. The Pension Fund has been subject to a review by the Fund's actuary, based on the position as at 31 March 2010. The current employer contribution, which was set in the 2007 valuation, is 22.9% of the employee's remuneration. The funding position of the scheme has been adversely affected by a combination of increased longevity, the assessment of future liabilities and low investment returns. Consequently the deficit has increased and, as the deficit needs to be recovered from a significantly reduced number of active members, the employer contribution will increase to 25.0% of employee's pay in 2011/12.
22. There are other service pressures that have been incorporated into the Council's budget for 2011/12. These include a provision for potential increased costs in temporary accommodation, increased adult social care clients and legal costs in children's social care. Further increases in concessionary fares (partly offset by a transfer of funding) and the new carbon tax have also added to the demands on the Council's budget for 2011/12.
23. The council's MTFs places us in a strong position to manage the pressures and uncertainty. The delivery of the One Council Programme is key to the MTFs which builds upon the council's financial stability and its judicious use of balances to manage risk. The Council has sought to deal with the financial climate by taking decisions about the services it can afford to provide to ensure the budget is sustainable, not just in 2011/12 but over the medium term. Finally, the council has been careful not to build up unsustainable commitments by limiting the amount of prudential borrowing to fund the capital programme.
24. 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 be significantly lower than 5%. 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 funding changes.
25. *Section 7* 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

2010/11, the increase per pupil was 4.7% compared to 4.3% nationally. The 2011/12 settlement for Schools nationally will be unchanged in cash terms per pupil. However, this does mean a real terms reduction once inflation is taken account of, so schools will feel a tightening of their budgets. For 2011/12 Brent will receive a DSG allocation based on £6,236.45 per pupil. This compares to an average for England of £5,082.53 and a maximum and minimum of £8,052 and £4,428 respectively. Details of the proposed allocation formulae and costs that will be charged to central items are subject to consultation with the Schools Forum.

26. The Housing Revenue Account, which covers the activities of the council as landlord for approximately 9,113 dwellings, is dealt with in *Section 8*. 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 6.14% is proposed for 2011/12 in line with the government's Rent Restructuring Policy. There is a separate report on this agenda on the HRA. Whilst the Executive is 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 28 February 2011.
27. The Council's overall capital programme for 2011/12 to 2013/14, together with the forecast outturn for 2010/11, is dealt with in *Section 9*. It is a three year rolling programme and balances the need to deliver the council's priorities, 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 proposed capital programme is £129.3m in 2011/12, with £120.0m spent on General Fund assets and £9.3m on HRA assets. The revenue impact of this programme on the General Fund is £180k in 2011/12 and £480k per annum thereafter.
28. The treasury management strategy is set out in *Section 10*. 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.
29. 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 11*.
30. 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 M* sets out advice from the Director of Legal and Procurement 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 2011/12 budget.