

LONDON BOROUGH OF BRENT
Meeting of the Executive - 13 February 2012
2012/13 BUDGET AND COUNCIL TAX

EXECUTIVE SUMMARY

1. The budget report sets out the key decisions Members are asked to make on:
 - the 2012/13 General Fund revenue budget;
 - the 2012/13 Schools Budget;
 - the 2012/13 Housing Revenue Account;
 - the Council's capital programme for 2012/13 to 2015/16;
 - 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 2011/12 probable outturn for the General Fund budget is covered in *Section 3*. Balances at the end of 2011/12 are forecast at £10.080m which would be £319k higher than the forecast in the 2011/12 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 2012/13 is £260.392m, which is 2.8% below the 2011/12 budget requirement of £267.889m.
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 to this report
8. The key decisions Members need to take on the 2012/13 General Fund budget are as follows:
 - Agreeing the service area budgets for 2012/13, which are detailed in Appendix C, incorporating growth and savings outlined in Appendix D;

- Agreeing the budget for central items for 2012/13, which is detailed in Appendix F;
 - Agreeing to an increase in the general reserves figure of £1m in 2012/13;
 - Agreeing the overall proposed budget of £260.392m for 2012/13;
 - Agreeing the proposed council tax requirement of £104.198m.
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 significant 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 2012/13 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 further savings against a budget that had £41.7m of reductions during 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 should be £12.0m (representing 4.6% of the net budget requirement for 2012/13) which the Director of

Finance & Corporate Services considers to be sufficient to meet the revenue budget risks identified in the report;

- The Council should seek to reach the minimum level of reserves within the next two financial years;
 - The optimal level of balances, to enable effective medium term financial planning in the authority, is within the range of £12.0m to £15.0m, with use of balances in any year being replenished in subsequent years;
 - Balances should only be used to fund unplanned one-off spending.
13. Members should note that the budget proposals in *Section 4* include a recommendation to increase balances by £1m in 2012/13 with a further increase in 2013/14 and that the impact of this 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 £155.420m in 2012/13. This figure includes the continuing grant in 2012/13 for freezing council tax in 2011/12.
 15. The council tax income requirement is £104.198m. This is based on the proposed budget requirement of £260.392m, less grant of £155.420m and £0.774m for Brent's share of the Collection Fund surplus. Using the council tax base of 98,398 Band D equivalent properties agreed by General Purposes Committee on 24 January 2012, the Band D Council Tax for Brent services would be £1,058.94 in 2012/13, unchanged from the figure in 2011/12.
 16. The government has announced that council tax increases in excess of 3.5% would be deemed excessive and be subject to a local referendum (replacing the previous capping arrangements). It has announced a grant (equivalent to a council tax increase of 2.5%) for those councils that do not increase council tax for 2012/13. The grant amounts to £2.575m for Brent Council and would be received in 2012/13 only.
 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 9 February 2012 to consider the Mayor of London's proposal regarding the GLA Band D precept for 2012/13.
 18. Subject to agreement to the recommendations in this report and the final decision on the Mayor's proposed precept, the overall council tax at Band D in Brent would be £1,368.76 in 2012/13, the same as in 2011/12.
 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 forecast of resources for 2013/14 and 2014/15 is based on the headline national figures announced as part of the 2010 spending review, updated to reflect the funding reductions following the announcement in the Autumn Statement that public

sector pay awards would be capped at 1% in those years. From April 2013 it is anticipated that the localisation of business rates will come in to effect. At this stage the impact of this change is still uncertain, although there are likely to be significant transitional protections in place in the initial years of the new arrangements.

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. There are other service pressures that have been incorporated into the Council's budget for 2012/13. These include a provision for potential increased costs in temporary accommodation and housing benefit, increased adult social care clients and legal costs and loss of government grant in children's social care. 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 2012/13 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.
22. *Section 7* of the report deals with the Schools Budget. The 2012/13 financial year may mark the last year of the current basis for schools' funding as the Government is consulting on plans to introduce fundamental changes from 2013/14. The 2012/13 settlement for Schools nationally will be unchanged in cash terms per pupil. However, this does mean a real terms reduction once inflation is taken into account, so schools will feel a tightening of their budgets. For 2012/13 Brent will receive a DSG allocation based on £6,236 per pupil. This compares to an average for England of £5,082 and a maximum and minimum of £8,052 and £4,428 respectively. Schools also receive a pupil premium targeted at deprivation – in 2012/13 this will be an additional £600 per pupil eligible for free school meals over the last six years.
23. The Housing Revenue Account, which covers the activities of the council as landlord for approximately 9,000 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 consists of rents. An average rent increase of 7.14% is proposed for 2012/13 in line with the government's Rent Restructuring Policy. There is a separate report on this agenda on the HRA budget for 2012/13. Whilst the Executive is asked to agree the rent increase, the HRA budget is part of the overall budget decision that will be taken by Full Council on 27 February 2012.

24. The Council's overall capital programme for 2012/13 to 2015/16, together with the forecast outturn for 2011/12, is dealt with in *Section 9*. It is a four 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 £195.9m in 2012/13, with £182.1m spent on General Fund assets and £13.8m on HRA assets.
25. 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.
26. 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*.
27. 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 2012/13 budget.