



**Full Council**  
23 November 2009

**Report from the Director of  
Finance and Corporate Resources**

Wards Affected:  
ALL

**First Reading Debate on the 2010/11 to 2013/14 Budget**

**1.0 Summary**

- 1.1 This report, together with the separate report on this agenda on the priorities of the administration, meets the requirement in the Constitution (Standing Order 25(b)) that: 'The Executive shall present a report to Full Council setting out the financial position of the Council, financial forecasts for the following year and their expenditure priorities. There shall then be a debate on the issues raised in that report held in accordance with Standing Order 44 hereinafter called a "First Reading Debate".'
- 1.2 The record of the 'First Reading Debate' is sent to the Leader of the Council and the Chair of the Budget Panel in order to inform consultation by them on the budget. The role of the Budget Panel is to assist the budget process by providing detailed input during the Executive's development of its budget proposals. This will include scrutiny of the Executive's budget proposals prior to the Executive's recommendations on the budget being agreed at their meeting on 15<sup>th</sup> February 2010, as well as further consideration after the Executive's recommendations have been made. Final decisions on budget and council tax will be made at Full Council on 1<sup>st</sup> March 2010.
- 1.3 The report has been written on the basis of the best information available to the council at this stage. Assumptions of external funding for 2010/11 are based on the figures in the current Comprehensive Spending Review, including a 1.5% increase in Formula Grant. There is considerable uncertainty about funding for later years with an expectation that this will not become clearer until after a General Election. In addition, the ongoing impact of the recession and pattern of future economic recovery mean that underlying assumptions about pay and price increases, interest rates, service pressures and other items within the council's medium term financial strategy will have to be kept under close review.

- 1.4 This report is structured as follows:
- Section 2 Recommendations
  - Section 3 Background to the 2010/11 to 2013/14 budget
  - Section 4 General Fund revenue budget issues in 2010/11
  - Section 5 Schools Budget
  - Section 6 Housing Revenue Account
  - Section 7 The capital programme
  - Section 8 Timetable
  - Section 9 Financial implications
  - Section 10 Legal implications
  - Section 11 Diversity implications

## **2.0 Recommendations**

- 2.1 Full Council is recommended to consider the issues set out in this report when it holds its 'First Reading Debate' for the purposes of Standing Order 25(a).

## **3.0 Background to the 2010/11 to 2013/14 budget**

- 3.1 The 2009/10 budget was agreed at Full Council on 2<sup>nd</sup> March 2009. Key features of the budget agreed for 2009/10 were as follows:
- A General Fund budget requirement of £261.8m in 2009/10;
  - A council tax increase for Brent services of 2.5% in 2009/10;
  - An overall council tax increase, including the GLA precept, of 1.9%, leading to a Council Tax for Band D properties of £1,368.76 in 2009/10;
  - Level of balances set at £7.5m for 2009/10, which was within the range of £7.5m to £8m recommended by the Director of Finance and Corporate Resources based on an assessment of financial risks and to enable effective medium term financial planning;
  - Financial projections for future years based on the assumptions that balances would remain within the £7.5m to £8m range and council tax increases would range between 0% and 5%.
- 3.2 Based on budget monitoring information up to the end of September 2009, the council is projected to have balances at 31<sup>st</sup> March 2010 of £5.6m, which is below the £7.5m target set in the 2009/10 budget. This forecast overspend is reduced from that forecast at the end of the first quarter. This is due to a forecast overspend in 2009/10 of £1.9m. Further details are in Appendix A.
- 3.3 The 3 year financial forecasts included in the 2009/10 budget report have formed the background for work on the 2010/11 to 2013/14 budget carried out over the past few months. The underlying assumptions in the current medium term financial strategy were up-dated in the budget process report to the

Executive in July. The resulting projected budget gap is set out in Table 1 below. This assumed that:

- a. Previously assumed service reductions of 3% each year were taken out on the basis that a balanced budget would need to be primarily delivered through the delivery of the Improvement and Efficiency strategy;
- b. 'inescapable growth' would be contained within a total contingency for growth of approximately £4m per annum;
- c. all priority growth would be funded from Area Based Grant, Performance Reward Grant or growth in other specific grants.

**Table 1: Projected Budget Gap (July Executive)**

Year	Cumulative budget gap assuming:		
	5% council tax rise	2.5% council tax rise	0% council tax rise
	£m	£m	£m
2010/11	9.0	11.6	14.1
2011/12	16.7	22.0	27.2
2012/13	23.9	32.3	40.2
2013/14	31.3	42.9	53.7

#### 4.0 General Fund revenue budget issues for 2010/11

##### *Budget gap*

- 4.1 Appendix B shows that the current budget gap for 2010/11 is £5.2m lower than that reported in July. The reasons for the decrease are a reduction in the inflation assumptions for pay and prices, reflecting the current low levels of inflation (£4.7m) and an increase in the estimated council tax base (£0.5m). The pay award for 2010/11 is now assumed at 0.75%. As a result the budget gap, assuming a council tax freeze, is £8.9m in 2010/11 and £3.8m for a 5% increase.
- 4.2 Further measures that can be taken to reduce the gap are as follows:
  - a. *Surplus carried forward from 2009/10:* The current budget gap assumes that there will be no surplus carried forward from 2009/10. Whilst the council's medium term financial strategy limits use of one-off funds to support on-going spending, the council has used surplus balances to provide limited support to the budget on a one-off basis. This amounted to £1m in the 2008/09 budget and £0.5m in the 2009/10 budget. Whilst the 2009/10 budget is currently forecast to overspend (see para 3.2 above), officers are currently reviewing measures to bring it back into line and, if possible, identify a surplus that can be used in 2010/11. Actions include a combination of eliminating projected overspends in individual service areas and identifying other measures to reduce spending in 2009/10. The 2009/10 pay award averaging 1% has now been agreed against a

budgeted level of 2%. This will save around £1m. The council has succeeded in achieving surplus balances to be used in the following year's budget in recent years and officers are confident that this can be achieved again in 2009/10.

- b. *Identifying additional savings:* As referred to above services are identifying actions as part of managing the budget for 2009/10. Where these are permanent changes this will provide ongoing benefit with full year effects to the budget position for 2010/11 and later years.
- c. *Central items:* Details of central items in the budget are included in Appendix C. The provision made in future years is still subject to fundamental review and updated information. Increases in these items include additional borrowing costs to fund the capital programme, rises in the levy that the council needs to pay to West London Waste Authority reflecting principally the impact of land-fill tax.
- d. *Fees and Charges:* The budget currently assumes no increase in fees and charges. Members may wish to consider some rises in specific areas.
- e. *Improvement and Efficiency Strategy:* The Strategy was developed in 2009 to address the massive financial and service challenges facing local government. The full impact of the recession and its effect on public finances will become much clearer after the General Election and the next Comprehensive Spending Review. An incremental approach to budgeting is no longer sustainable. The Improvement and Efficiency Action Plan is the blueprint to deliver the strategy over a 4 year period. It seeks a planned and rational approach to realistically recognising the scale and complexity of the Change Programme. The Action Plan contains the key projects including 12 gold projects which are highly complex but where there are opportunities for a high level of efficiency savings. Detailed project plans are currently being prepared including estimates of potential savings to be delivered. A proportion of these will be realised in 2010/11 and these can be factored into the budget consideration to help ensure a balanced budget is agreed.

#### *Inescapable growth*

- 4.3 The current medium term financial strategy approved in March 2009 contained itemised inescapable growth for 2010/11 of £1.849m plus a general provision of £2m. These items have been updated for more recent information, bringing the revised total to £2.038m, as set out in Appendix D - leaving £1.811m within the general provision. Any new inescapable growth above this figure will increase the budget gap. Assessments of the sums involved are still being undertaken but it is clear that pressures in the following areas will have an impact in 2010/11:

- Children with Disabilities
- Increase in looked after children/Impact of "Southwark" judgement
- Adult Social Care – increase in transitions cases from young people to adults

- Environment and Culture – significant decreases in income linked to the recession
- Housing Benefit – 12% rise in caseload

Further information on these issues is set out in Appendix E.

#### *Priority growth*

- 4.4 The current medium term strategy incorporates the allocation of performance reward grant to deliver council priorities and this is set out in Appendix F. These were agreed by Full Council on 2<sup>nd</sup> March 2009.

#### *Council tax increase*

- 4.5 Members need to recognise that the budget pressures the council faces are such that the delivery of the council's Improvement and Efficiency strategy is vital to ensuring a budget which is affordable within the permitted maximum council tax rise of 5%, particularly if members are to achieve a council tax rise of significantly less than 5%. Each 1% in council tax equates to approximately £1m of council spending.
- 4.6 The figures for council tax do not include the precept that will be set by the GLA. The Mayor will issue his consultation on the proposed GLA precept – which covers the Metropolitan Police, London Fire and Emergency Planning Authority, and Transport for London, as well as the GLA itself – in December 2009 and his budget proposals will then go through a process of scrutiny by the Greater London Assembly. The final precept will be decided in February 2010. At this stage, the indications are that the new Mayor will be seeking to freeze the GLA precept in 2010/11 and this is reflected in the figures for overall Brent council tax shown in Appendix B.
- 4.7 The level of council tax increase for the council is affected by the extent to which the council tax base has changed between 2009/10 and 2010/11 and the estimated deficit in the Collection Fund. The council tax base for Brent will be determined by the General Purposes Committee in January 2010 and the estimated deficit in the Collection fund will be determined by the Executive in December 2009. The assumptions in Appendix B are that the council tax base will increase by 1.25% and that the deficit in the Collection Fund will remain at 2009/10 levels.

#### *Government funding decisions*

- 4.8 The government announced the Formula Grant, Area Based Grant and specific grants the council will receive in 2010/11 as part of last year's finance settlement. Whilst the settlement for 2010/11 has to be formally confirmed, no significant changes are expected to most of the previously announced figures. The one exception to this being concessionary fares where there has been uncertainty as to whether the government will change the basis of allocating the grant across the country. The government has recently

published a consultation document on a proposal to transfer £28.6m from London. This would mean an additional cost to the council of £1m in 2010/11. Updated passenger usage numbers will also mean that the council will have to bear a greater proportion of the costs met by London boroughs, resulting in an additional £350,000 in 2010/11. The combined effect of this will increase the cost to the council in 2010/11 by £1.35m more than allowed for in the current medium term financial strategy.

#### *Longer term position*

- 4.9 The council needs to look at spending decisions, and associated resource projections, over at least a three year period. This ensures effective service development and prevents the council having to make significant adjustments to its spending plans each year. It is important therefore that, when members consider budget issues, they take account of the longer term impact. This means recognising that one-off resources, such as balances or one-off grants, can act as a palliative in one year of the budget cycle but cause problems in future years. It also means that, if there is new growth which is on-going, the resource implications in future years have to be considered.
- 4.10 Further work needs to be carried out on the potential impact of demand and other growth pressures after 2010/11, the savings that will be delivered as part of the Improvement and Efficiency Strategy, and other projections through to 2013/14. This work will be reflected in an up-dated medium term financial strategy which will be included in the budget report to Full Council in March 2010.

#### *Activity levels and outcomes*

- 4.11 Setting the budget is not just a financial exercise. Having sufficient budget – and prioritising how that budget is used – is the means by which the council delivers services within Brent. In addition, budget discussions are often confined to spending at the margin – growth or savings – and do not focus on how the rest of the budget (the 95% or more not affected by growth or savings) is used. The council's performance and finance review monitoring system enables members to focus attention on the activities the budget supports – and the performance of those activities. The process for setting performance targets and levels of activity the budget can sustain will be incorporated within the 2010/11 budget report.

## **5.0 Schools Budget**

- 5.1 The introduction of the Schools Budget from 1<sup>st</sup> April 2006 was a fundamental change to the way in which councils' budgets are constructed. Previously, schools' spending was part of the overall council budget, and was funded from Formula Grant and council tax. From 2006/07, schools' spending was funded directly from a Dedicated Schools Grant. It is therefore totally ring-fenced and does not appear as part of the council's overall budget requirement. The result is that the £189.6m the council is spending through



the Schools Budget on schools in 2009/10 is treated totally separately from spending on other General Fund services.

- 5.2 The government announced indicative allocations of Dedicated Schools Grant for 2010/11 as part of the current Comprehensive Spending Review. The average national provisional per pupil increase is 4.3% for 2010/11. The provisional per pupil increase for Brent is above average at 4.7%, primarily as a result of the award of additional funding to authorities such as Brent which spent below the government's hypothetical allocation under the pre-2006/07 system. Caution has to be exercised in allocating this amount to schools and central items, since the actual increase will not be announced until June 2010 based on the result of the January 2010 pupil count.
- 5.3 When the Dedicated Schools Grant framework was introduced, the government also announced that there would be a fundamental formula review which began in January 2008. The review is still ongoing and is due to be completed in 2010.
- 5.4 A total of £2.552m of funds allocated through Area Based Grant in 2009/10 was for schools' schemes and this will decrease to £2.015m in 2010/11. The change is primarily due to a decrease from £922k to £379k in the allocation to fund extended schools set up costs. Specific grants to schools, on top of Dedicated Schools Grant, are £20.965m in 2009/10 and will increase to £21.866m in 2010/11.
- 5.5 The council is required to consult the Schools Forum, which consists of representatives of the different schools sectors and includes head-teachers and governors, on allocation of the Schools Budget. The Schools Forum will be considering this at their meetings in December through to February. There is a requirement that the year on year increase in the central element of the Schools Budget (which includes Special Education Needs element and other areas) cannot be greater in percentage terms than the increase in funding delegated to schools, unless the Forum agrees a higher increase. A key issue that will need to be addressed is competing demands on the central element of the budget which will include pressure on the cost of pupils with special education needs, the need to increase funding for schools' capital works, and other legitimate charges to this budget.
- 5.6 Final decisions on the allocation of the Schools Budget will be taken by the Executive in February 2010.

## **6.0 Housing Revenue Account**

- 6.1 The Housing Revenue Account (HRA) covers the activities of the council as landlord for approximately 9,100 freehold dwellings and 300 leasehold dwellings. The HRA is separate from the General Fund and is ring-fenced – i.e. HRA expenditure is met from HRA resources, which primarily consist of government subsidy (Housing Revenue Account Subsidy) and rents.

- 6.2 The rent increase for council dwellings takes account of the government's guidelines on convergence between rents charged by councils and Registered Social Landlords (mainly housing associations). In 2009/10, this resulted in an average rent increase of 2.53%.
- 6.3 The HRA forecast outturn for 2009/10 indicates a surplus of £2.0m, which is £1.6m more than that provided for in the original budget. The main reason for this is the increased surplus carried forward in 2008/09.
- 6.4 At the time of drafting this report the government is yet to publish its draft HRA determination and HRA subsidy determination for 2010/11.
- 6.5 The Executive will make decisions on the rent increase to be applied in 2010/11 in February 2010. The HRA budget will be agreed by Full Council in March 2010 as part of its consideration of the overall council budget report.

## **7.0 Capital Programme**

- 7.1 The capital programme is a four year rolling programme which is up-dated each year. The current 2009/10 to 2012/13 capital programme was agreed as part of the overall 2009/10 budget process in March 2009 and has been up-dated to reflect changes subsequently reported to the Executive. A high level summary of the current capital programme is attached as Appendix G. This includes slippage of previous years' spending into 2009/10.
- 7.2 The capital programme for 2009/10 to 2012/13 reflects priorities in the Corporate Strategy. The revised capital programme from 2010/11 will be up-dated to reflect new information on spending needs resulting from revised asset management plans and also will be rolled forward to include the 2013/14 financial year.
- 7.3 The key challenges for the development of the capital programme are:
- a. To revisit the estimated sources of funding, taking into account the impact of the economic downturn on future government funding and other contributions;
  - b. The progress of the major schools capital projects including Building Schools for the Future and the national Primary Capital Programme which are key to the formation of a long-term programme to address school capital needs;
  - c. In the light of the above to ensure that the up-dated capital programme delivers the council's key priorities within the resources available.
- 7.4 The capital programme is currently based on the assumption that borrowing that falls on the General Fund will be at the level set out in the council's medium term financial strategy. This was agreed by Full Council on 2<sup>nd</sup> March 2009. Members could decide to reduce that borrowing as a way of helping bridge the budget gap in 2010/11 and beyond. To achieve this, there would have to be either reductions in the capital programme or identification of alternative funding sources other than borrowing from those already identified.



## **8.0 Timetable**

8.1 The timetable for finalising the 2010/11 budget is attached as Appendix H. Key dates are as follows:

- release of the Mayor's consultation on the GLA budget in mid-December;
- administration's draft proposals issued on 27<sup>th</sup> January 2010;
- GLA budget agreed on 10<sup>th</sup> February 2010;
- Executive decides recommendations to Full Council on budget at meeting on 15<sup>th</sup> February 2010;
- Full Council decides budget on 1<sup>st</sup> March 2010.

8.2 The Budget Panel will be scrutinising the budget at various stages of this process: prior to the administration's draft proposals being issued; after the proposals have been issued, with their discussions feeding into Executive consideration of the budget proposals on 15<sup>th</sup> February; and following the decisions of the Executive on 15<sup>th</sup> February, feeding into the Council budget debate. Last year the Budget Panel successfully involved a range of members in their meeting preceding the Executive's consideration of the budget proposals and the intention will be to follow the same approach this year. This meeting has been scheduled for 10<sup>th</sup> February 2010. Party Groups are also encouraged to invite the Director of Finance and Corporate Resources to brief their members in advance of the budget decision making process.

## **9.0 Financial Implications**

9.1 The report is entirely concerned with financial implications.

## **10.0 Legal Implications**

10.1 The council's Standing Orders contain detailed rules on the development of the council's budget. Some elements of these rules are required by the Local Authorities (Standing Orders) (England) Regulations 2001 but a number are locally determined.

10.2 In the case of the council's annual budget, including the capital programme, the Executive is required under the Constitution to present a report to Full Council setting out the financial position of the council, financial forecasts for the following year and their expenditure priorities. This report, together with the separate report on this agenda on the priorities of the administration, sets out the required information. There will be a debate on the issues raised herein and in the separate report, which will be conducted in accordance with Standing Order 44.

- 10.3 Following the First Reading Debate, a record of the debate will be sent to the Leader and to Chair of the Budget Panel. The Budget Panel will meet and produce a report setting out its view of the budget priorities and any other issues it considers relevant. This report will be submitted to each Executive Member and each Group Leader in order to inform budget proposal discussions. Prior to being agreed by the Executive, the Executive's budget proposals will be sent to members of the Budget Panel which will consider the proposals and submit a note of its deliberations and comments on the proposals to the Executive. The Executive will take into account the issues raised at the First Reading Debate and the note of the deliberations and comments from the Budget Panel in making its budget recommendations to Full Council.
- 10.4 The final proposals will be submitted by the Leader to a special meeting of Full Council for consideration and determination no later than 10<sup>th</sup> March in accordance with Standing Order 34. There is a statutory dispute procedure set out in Standing Order 25 to deal with circumstances where there is a disagreement between the Council and Executive on the budget proposals but this only applies where the budget setting meeting takes place before the 8<sup>th</sup> of February.

## **11.0 Diversity Implications**

- 11.1 Prioritisation and decision making as part of the budget process are tied into the council's corporate strategy, individual strategies and service development plans. The priorities within these reflect the council's commitment to tackling discrimination and disadvantage as part of its Comprehensive Equality Plan (CEP). In addition, services are required to carry out Impact Need and Requirements Assessments where it is considered that individual growth and savings proposals could have an equality impact. The impact of budget decisions is monitored through the council's performance monitoring systems. Members need to bear in mind the diversity implications of any proposals they put forward as part of the First Reading Debate.

## **12.0 Background Papers**

- Corporate Strategy 2006-2010
- Priorities for the Administration – on this agenda
- Capital Strategy 2006-2011
- 2009/10 budget and council tax report – Full Council on 2nd March 2009
- Performance and Finance Review Report – Quarter 1 (April to June 2009)– the Executive on 15<sup>th</sup> September 2009
- Improvement and Efficiency Strategy Action Plan 2010-2014

### **13.0 Contact Officers**

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