2006/07 BUDGET AND COUNCIL TAX REPORT

EXECUTIVE SUMMARY

1. The budget report sets out the key decisions Members are asked to make on:
   - the 2006/07 General Fund revenue budget;
   - the 2006/07 and 2007/08 Dedicated Schools Budget
   - the 2006/07 Housing Revenue Account;
   - the council's capital programme for 2006/07 to 2009/10;
   - 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. It highlights the 2003 Local Government Act requirement for the Director of Finance and Corporate Resources to report on the robustness of the budget estimates and the adequacy of financial reserves.

4. *Section 2* details the recommendations in the report. 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 General Fund *budget making process*, including the way in which the development of growth and savings proposals is aligned with the service planning process, is set out in *Section 3*. Each service area has produced a draft service development plan which was presented to Full Council on 28th November 2005 and was subsequently considered at the Executive on 12th December 2005. Members had their first opportunity to debate the budget at the First Reading debate at Full Council on 28th November 2005. The Executive considered this report at its meeting on 13th February 2006 and agreed the recommendations with it. The Executive's recommendations were scrutinised at a joint meeting of Overview and Scrutiny on 22nd February 2006, draft minutes of which are attached as Appendix E(ii) to this report. Full Council on 6th March will make the final decisions on the budget.

6. The priorities within the budget are determined by the Corporate Strategy agreed in 2002, which was the subject of widespread consultation. Consultation with the Citizens' Panel has in the past shown that residents want to improve services but keep the council tax low. There has also been consultation with the Schools' Forum on allocation of the Dedicated Schools Budget.

7. The *2005/06 probable outturn* for the General Fund budget is covered in *Section 4*. Spending overall has been contained within budget in 2005/06. The largest single budget pressure in 2005/06 is adult services principally as a result of responsibility for funding clients being transferred from Brent Teaching Primary Care Trust (tPCT) but this, together with projected overspends on children's services and environment and culture, is offset by savings in central items. After allowing for a recommendation to fund £520k of one-off growth items, forecast balances at 31st March 2006 are £7.722m. Achievement of this is dependent on service areas maintaining rigorous budget discipline to the end of the current financial year. The council's success at maintaining balances at this level forms a platform for financial and service stability in future years.

8. *Section 5* deals with the key spending decisions. The recommended overall budget for 2006/07 is £235.513m, which, after taking account of resources available, would lead to an increase in the Brent element of the council tax of 2.2%.

9. The key decisions Members need to take on the 2006/07 General Fund budget are as follows:
   - Agreeing or varying the service area budgets for 2006/07, which are detailed in Appendix C, incorporating growth and savings outlined in Appendix D;
   - Agreeing or varying the overall budget for service areas in 2006/07 which this report recommends should be set at £198.445m;
   - Agreeing or varying the budget for central items which is set at £37.418m for 2006/07, and is detailed in Appendix F;
   - Agreeing or varying other net adjustments set out in the budget in Appendix B, amounting to a credit of £350k;
   - Agreeing or varying the overall budget requirement of £235.513m for 2006/07.

10. In making these decisions, Members have to consider the extent to which the proposed budget meets corporate and service objectives, the consequences of agreeing or not agreeing growth and savings at the recommended level for services and council tax payers, and the realism of, and risks associated with, the budget.

11. Members also have to consider the impact of the budget on individuals and communities in Brent. All service areas considered diversity implications as part of the service development planning process, and growth and savings proposals are screened by service areas for diversity implications before they are submitted. But Members also have to ensure the budget as a whole – including growth and savings proposals - 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.

12. The overall budget risks detailed in *Section 5* fall into the following main categories:

- 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;
- risks from new legislation, where the council faces uncertainty about the costs of implementing new legislation. Key areas are the on-going impact of the Licensing Act 2003, Civil Contingencies Act 2004, the Housing Act 2004, the Transport Management Act 2004, the Children Act 2004, the Childcare Bill, the Electoral Registration Bill, and the Road Safety Bill;
- risks from legal challenges;
- partnership risks, particularly in the health sector where pressure on tPCT budget will have an impact on funding of clients who have both health and social care needs;
- interest rate risks, where fluctuations would have an impact on the estimated costs of borrowing;
- procurement risks, where market conditions could mean that costs could increase – examples include the waste management contract, procurement of social care placements, and energy procurement;
- pay risks related to the single status agreement;
- grant risks, arising from changes to grant conditions or the council not meeting grant conditions;
- risks of not achieving savings or income targets in the budget;
- asset management risks if corporate or service buildings have to be closed because of current condition;
- risks of overspend on major capital schemes;
- risks from major developments in the borough, including the re-opening of Wembley Stadium;
- risks from terrorist attacks or other major disasters.

13. The level of balances is also a major issue for Members to consider. As set out above, the council's balances at 31st March 2006 are forecast to be £7.722m. Balances are scrutinised by the council's appointed auditors, PricewaterhouseCoopers LLP, who singled this out as an area for the council to review in their otherwise positive 2005 Use of Resources judgement. In addition, the budget is tighter than in recent years because of limited growth in external funding and the pressures on the adult care budget as a result of transfers of costs from tPCT which are likely to continue in 2006/07. The grant settlement (which is detailed below) will also result in the council receiving the 'floor' increase in grant for the next three years and possibly longer. In order to allow for the additional risks in the budget and the slower rate of growth in funding in future years than in recent years, the Director of Finance and Corporate Resources advises that:

- The minimum prudent level of balances should be £5.5m, 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, should be £7.5m to £8m, 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 one-off spending;
- 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.

14. The resources to fund the General Fund budget are set out in *Section 6*. This details the external funding the council will receive following confirmation of the local government finance settlement for 2006/07 on 31st January 2006. Overall the council will receive external funding (excluding specific grants) of £147.334m in 2006/07 and a provisional amount of £150.556m in 2007/08.

15. This leaves a total of £89.357m which is needed to fund the proposed budget requirement of £235.513m and Brent's share of the Collection Fund deficit of £1.178m. Using the council tax base of 94,047 Band D equivalents agreed by General Purposes Committee on 13th December 2005, the Band D Council Tax for Brent services would be £950.13 in 2006/07. This is 2.2% higher than the 2005/06 Band D Council Tax for Brent services of £929.52.

16. The proposed increase of 2.2% in the Brent council tax is below current inflation levels and well below the average increase of under 5% that the Minister of State for Local Government says he expects in 2006/07. It will mean that Brent will remain in the lower half of council tax levels in London. In these circumstances, it is highly unlikely that Brent will be capped.

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 and the GLA itself. In 2006/07, it will also for the first time include an Olympics levy. The Greater London Assembly meeting on 15th February 2006 agreed the Mayor's proposal for a precept at Band D of £288.61 in 2006/07, an increase of 5.5% without the Olympics levy and an increase of 13.3% with the Olympics levy. As well as paying for the Olympics, the increased levy would pay for full roll-out of neighbourhood policing during 2006/07. Based on this increase, and the 2.2% proposed for Brent Council services, the overall council tax at Band D in Brent would be £1,238.74, 4.6% higher than in 2005/06.

18. *Section 7* of the report deals with *medium term financial prospects* and is the last part of the report dealing specifically with the General Fund. Changes to the grant system mean that for the first time the government has announced provisional grant figures for 2007/08 at the same time as announcing the 2006/07 grant figures. Brent's grant increase in 2007/08 will once again be in line with the 'floor' increase which has been set at 2.7% (after adjusting for changes in function). The provisional level of grant for 2007/08 has been set

at £150.556m. The section also provides forecasts of resources beyond 2007/08, assuming the council's grant increase remains at the 'floor' level.

19. In addition to forecasting resources, *Section 7* also looks at forecast spending in service areas, taking account of the 2% per annum budget savings built into service area cash limits, growth commitments in future years, and the provision required for central items, including funding needed to meet capital financing charges arising from the capital programme.

20. Officers have also up-dated the 30 year plan, first developed in 2004, as a way of helping the council assess the affordability of prudential borrowing to fund capital projects. The 30 year plan provides a basis for Members to consider different scenarios and to take a strategic view of priorities for future developments over a longer period of time.

21. Part of the change to multi-year financial settlements is an expectation that greater certainty about grant levels will enable councils to announce provisional council tax rises for future years. The medium term financial planning approach in Brent means that the council is in a strong position to do this. There is always uncertainty about future spending pressures and policy choices that may need to be made. Rather than fix a specific level of council tax increase for future years, the report recommends increases in 2007/08 and future years in the range of 2.5% - the target level of inflation – and 5% - the level above which the council risks being capped.

22. *Section 8* of the report deals with the introduction of the Dedicated Schools Budget. From 1st April 2006, schools' spending will be funded directly from a Dedicated Schools Grant which is totally ring-fenced to schools. Dedicated Schools Grant allocations have been announced for both 2006/07 and 2007/08 and include a per pupil increase in funding of 8.2% in 2006/07 and 8.1% in 2007/08 which is the second highest increase in the country. The Schools' Forum, which consists of governors and head teachers representing all school sectors, met on 6th February 2006 to agree recommendations to the Executive on school funding in 2006/07 and 2007/08. Decisions on the allocation of school funding, which took account of recommendations from the Schools Forum, were taken by the Executive on 13th February.

23. The Housing Revenue Account, which covers the activities of the council as landlord for approximately 9,500 dwellings, is dealt with in *Section 9*. 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. The Executive on 13th February agreed an average rent increase of 4.5%. The increase takes account of the government's guidelines on convergence between rents charged by councils and Registered Social Landlords (mainly housing associations). Whilst the Executive agreed the rent increase, the overall HRA budget is part of the overall budget decision which will be taken by Full Council on 6th March 2006.

24. The council's overall *capital programme for 2006/07 to 2009/10,* together with the revised 2005/06 programme, is dealt with in *section 10.* It is a four year rolling programme, which is based on the Capital Strategy 2005-2010 agreed by Full Council on 28th November. Its aim is to provide the capital required to deliver the council's priorities and to ensure maintenance of the council's existing assets. The overall capital programme has been set at £49.8m in 2006/07, with £43.3m spent on General Fund assets and £6.5m on HRA assets. Levels of unsupported borrowing have been set at £12.317m in 2006/07 (including funding of schemes which have slipped from 2005/06 to 2006/07), and £12.312m in 2007/08, with lower levels in subsequent years. The capital financing charges on this level of unsupported borrowing have been allowed for in the central items in the proposed General Fund revenue budget in Section 5.

25. The *treasury management strateg*y is set out in *section 11*. The council has total borrowing of around £580m and total investments of around £100m. The treasury management strategy is aimed at managing this portfolio in such a way as to minimise borrowing costs and maximise investment returns whilst minimising risk. It is based on an assessment of the state of the economy over the next year and the prospects for interest rates. It sets out various interest rate scenarios and the actions that will be taken in response to these. The strategy has been prepared in consultation with our Treasury advisers, Sector.

26. Adoption of the treasury management strategy by Full Council is seen as good practice and is one of the prudential indicators set out in the *CIPFA Prudential Code for Capital Finance*, which is covered in *section 12* of the report. The Prudential Code was introduced in 2003 as part of the reforms to the local government finance system resulting from the Local Government Act 2003. The LGA 2003 has given councils significant freedom to exercise borrowing powers to meet local needs for capital investment. The aim of the Code is to ensure councils use these new freedoms 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.

27. *Section 13* provides details of the council's approach to delivering v*alue for money*. The council is on course to deliver target efficiency gains in line with the target set by central government following the Gershon review. The council also achieved a level 3 – 'consistently above minimum requirements' - in the value for money element of the CPA Use of Resources judgement, and has one of the lowest council taxes in outer London – 17th out of 20 outer London boroughs. The council's Efficiency Programme is aimed at delivering further value for money improvements through a range of projects which will deliver improvements in procurement, processes, support services, and productive use of staff time. Some projects will deliver efficiency gains in the short term and savings from these of £500k have been included in the 2006/07 budget, in addition to efficiency savings within service area budgets. Other projects are medium to long term and additional savings from these have been

built into the medium term financial strategy. This is only one aspect of the council's work on value for money which also includes the work of the High Level Monitoring Group, chaired by the Leader of the Council, and the work of scrutiny. Successes from this include improvements in previously weak services – eg benefits and sports – as well as improvements in key performance indictors - eg council tax collection.

28. *Section 14* deals with the procedures required to control expenditure. This includes setting out roles and responsibilities, the arrangements for monitoring spending, and the approach to controlling the budget. The council has been successful over the past two years at maintaining spending within budget and needs to continue to be so in order to ensure delivery of corporate and service priorities. The arrangements set out in section 14 seek to ensure this happens.

29. 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 O* sets out advice from the Borough Solicitor 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 at the Council meeting on 6th March 2006.