

SECTION 5

5. THE 2004/2005 REVENUE BUDGET REQUIREMENT

Introduction

- 5.1 This section details the 2004/2005 revenue budget. It sets out the basis on which it has been prepared and the items taken into account in arriving at the Council's overall requirement.
- 5.2 The Council's total budget is controlled by the level of government grant it receives and the Council Tax it wishes to set. Details of these are dealt with in Section 10.
- 5.3 Appendix B provides the summary position for the 2004/2005 budget. Members are asked either to agree this budget or propose amendments, which achieve a revised budget, consistent with the financial and legal advice contained within the report.
- 5.4 The budget in Appendix B sets spending at £347.415m (£5.820m below FSS. The corresponding figure for 2003/2004 was £8.949m).

2004/2005 Detailed Service Area Budget

- 5.5 All Service Areas have prepared reports detailing their base budgets and Service Development Plans for 2004/2005 and the following three years. The budgets are summarised in Appendix C updated to reflect the Administration's budget proposals. The budgets have been compiled on the basis set out in Section 3. The table below shows the main factors which have changed the budget between 2003/2004 and 2004/2005.

TABLE 1 - Service Area Budgets

	Latest 2003/2004 Budget £'000	Budget Adjustments £'000	Growth £'000	Savings/ Income £'000	Inflation £'000	2004/2005 Budget £'000
Corporate	29,361	(6,339)	1,636	(1,594)	778	23,842
Education, Arts and Libraries	142,113	(2,100)	8,491	(257)	4,250	152,497
Environment	28,096	-	4,286	(1,311)	1,430	32,501
Housing	12,558	(301)	1,385	(276)	220	13,586
Social Services	77,170	5,889	2,454	(2,142)	1,991	85,362
Total	289,298	(2,851)	18,252	(5,580)	8,669	307,788

The budget adjustments reflect changes in Government funding regimes and do not directly impact on the level of gross expenditure or the net cost to the Council Taxpayer.

- 5.6 Appendix D details the specific growth and saving/increased income items, a number of which are technical or other adjustments, which have no impact on services.

Service Area Issues

- 5.7 This part of the report sets out specific issues for each Service Area which Members need to be aware of and consider before agreeing the final budget. It particularly focuses on areas of risk within the budget which will influence the level of balances recommended.

5.8 Corporate Units

(i) Housing Benefits Deficit

New subsidy regulations are being introduced from 1st April 2004, and it is difficult to fully assess the likely impact of these changes. However, there are various uncertainties, which could put the proposed budget under pressure.

Firstly, from 1st April Housing and Council Tax Benefit will be reimbursed by a 100% grant regime rather than 95%. Total subsidy loss, where within the rules 100% will not be claimable, will be limited to 1% in 2004/2005 compared with 2003/2004. Therefore if the authority suffers a loss greater than 1% compared to the subsidy it would have received under the old subsidy rules, additional subsidy will be paid to limit the loss to 1%. 1% amounts to around £1.6m. The subsidy loss limit will be increased to 2% in 2005/2006 and phased out in 2006/2007. However, there may be some compensation available to authorities facing substantial loss in 2006/2007. Any subsidy gain under the new rules will also be subject to the above limits. This creates an additional degree of uncertainty as to what the actual financial effect of the changes will be.

The second regards local authority overpayments which occur when claimants changes in circumstances notification are not actioned within the prescribed timescales. At present, no subsidy is received on such overpayments, but from April 2004 the government has set a threshold below which there will be no subsidy penalties. In 2004/2005 if such overpayments are below 0.48% of total benefit expenditure there is no subsidy loss. If the figure is between 0.48% and 0.54%, there is a 60% subsidy penalty on **all** of these overpayments, and above if 0.54% there is a 100% subsidy penalty on **all** overpayments. The effect of breaching the 0.54% threshold would be at least £600,000 (depending on the total of these overpayments). In previous years, Brent was

below the 0.48%, so would have suffered no subsidy loss. However for 2003/2004 the figure is likely to be above the 0.54%, and the full subsidy loss would have been incurred primarily because of the administrative difficulties in dealing with backlogs inherited from the previous contractor. Therefore it is vital that current procedures are followed which ensure that the level of local authority error is minimised and kept below the 0.48% threshold.

Lastly is the level of recovery of overpaid benefits. A new debt recovery system has recently been introduced, and the team dealing with overpayment recovery has been strengthened, and it is expected that the total recovered will increase to £2.8m in 2004/2005 (£2.35m 2003/2004). Any amounts recovered go to reduce the net benefit deficit figure.

(ii) Utilities Savings

The Council is in a consortium arrangement with a number of other local authorities, which enables it to purchase both gas and electricity at prices that are generally below those available to the Council if contracted directly with the supplier. The Procurement Unit, having undertaken an extensive exercise, believe that by using the arrangement more widely a saving of £150k can be made. This is currently included as a single item within the corporate budget. However, it is a volatile market where prices are rising and suppliers are constantly changing their terms and conditions. It is intended that the latest prices available from the consortium will be compared with prices assumed within agreed budgets, where other suppliers are used and savings allocated to Service Areas on that basis. Suppliers will be switched at the same time.

(iii) Training Budget

The Council spends a significant sum on training for staff and Members. It is proposed that a study be undertaken to seek to rationalise providers and build an in-house capacity, where appropriate, to both improve the provision and make economies. No savings have been assumed in the budget.

5.9 Education, Arts and Libraries

(i) The Schools Budget

Under the provisions of the 2003 Local Government Act the Council is required to agree a provisional schools budget and notify the Secretary of State of this by 31st December. The Executive considered this on 8th December and agreed a provisional schools' budget of £132,515k. This effectively equated to "*passporting*" the increase in formula spending share plus specific formula grants, applicable to the figures in the Provisional Local Government Finance Settlement, which guarantees no intervention from the Secretary of State. The Schools

Budget is made up of two main elements. Firstly the Individual Schools Budget (ISB), the amount devolved to schools and secondly the non-devolved element which is held by the LEA.

The introduction of a minimum per pupil funding guarantee in 2004/2005 assures that all schools with static pupil numbers will receive at least a 4% increase in funding, with a minimum per pupil increase of 3.4% for all schools. However, the increase in the Individual Schools Budget (ISB) agreed on 8th December represents a rise on the 2003/2004 figure of 5.8%, net of LSC funding, comfortably exceeding that minimum 4% funding requirement.

Members also agreed at the meeting of the Executive on 8th December 2003 to apply for a higher limit from the DfES to allow the non-devolved element of the schools budget to increase by a greater percentage than the devolved element. This process was also a new requirement for 2004/2005. The need to increase the non-schools budget at the level proposed is because of the current overspend in out-borough SEN placements. The DfES initially turned down this request but stated a revised application could be made with additional information on the cost pressures faced by the authority. This was submitted on 30th January. If the application had been rejected £1.325m would have to be added to the ISB to meet the DfES requirements. This would have added an additional £14.30 (1.68%) to Band D Council Tax and increase the risk of capping. The Schools Forum supported the funding of the increase in the SEN budget from Council Tax (see Section 3). This figure was assumed within the budget in the report to the Executive on 9th February.

The DfES responded to the Council's updated application on 16th February. They have agreed that only 50% (£663k) of the £1.325m needs to be added to the ISB to meet its requirements which will be given effect by amending regulations to be laid before 1st April. This latest figure has now been included in Appendix B.

(ii) Sixth Form Funding

Funding for school sixth forms comes from the Learning and Skills Council (LSC). The resources are shown as part of the delegated budget of the secondary (and two special) schools and then appear as income in the EAL budget. The original school budget projections for 2004/05 assumed a 4% increase in the level of sixth form funding. The LSC have recently announced the 2004/05 sixth form allocations and these are higher than the assumed 4% level and represent an overall increase in funding of £1.957m. The additional resources are not evenly spread across the schools – the amounts will vary depending upon pupil numbers and the type of courses being provided. This increase does not affect either the passporting figure or the overall EAL budget, since there will be matching LSC income and the net figures in each case will remain the same. However, it provides a significant overall increase in school resources in the secondary sector.

(iii) Excellence in Cities

The DfES have allocated £2.215m as a specific formula grant for Excellence in Cities. Members are asked to confirm that this grant is to be used for that purpose.

(iv) Standards Fund

The Government in July reversed its proposals to cut a number of Standards Fund grants in 2004/2005. EAL had offered up £740k savings, representing the Council's matched funding contribution to these grants. This saving has now been reversed to ensure that the Council can take up in full its Standards Fund allocation for 2004/2005. The total available currently announced amounts to £23m.

(v) Funding Formula

The Executive on 9th February 2004 approved the proposed formula set out in the report before it for 2004/2005. The LEA is required to consult schools annually on possible changes to its funding formula and the results of the consultation were included within the report. The Executive also indicated that it would direct any additional funding it put into the ISB, as a result of any increase in the non-devolved block above the devolved block (see paragraph (I) of this section) towards the primary sector by adjusting the pupil weightings. This total sum as previously stated would amount to £663k. This position will need to be considered in light of the Schools Forum deliberations on 23rd February. A formal decision on this issue will be required by Full Council. If the Council takes no action on this matter the additional funding will be allocated on the basis of the currently agreed funding formula pupil weightings.

(vi) Teachers' Pay Award

The 2004/2005 and 2005/2006 awards have already been announced which will provide greater stability to schools when considering their budgets. The increase next year will be 2.5%, with a rise of 2.95% in 2005/2006. The budget proposed means that each school will receive resources above that needed to fully fund the teachers' pay award.

(vii) Addressing 2003/2004 Overspendings

As set out in Section 4 Education, Arts and Libraries have forecast a significant overspend in 2003/2004. Much of this relates to demand led services which cannot be reversed in the short term. Hence there has been a substantial increase in these budgets. The main areas are:

(a) Outborough Placements

Growth of £1,700k for 2004/2005 has been agreed in setting the schools' budget to address this budget shortfall. However, it is the intention to introduce a radical re-appraisal of the Council's approach to out-borough SEN placements with a regular detailed

review of the most expensive cases at a senior level in conjunction with Education, Arts and Libraries.

(b) Home Tuition Service

Growth of £200k for 2004/2005 has been agreed to meet the increasing demand.

(c) Transport

Growth of £357k has been proposed for 2004/2005 to address this issue, as there do not appear to be any short-term radical proposals that will save significant amounts on transport costs. It is the intention to review management arrangement and lines of accountability of Brent Transport Services with a view to achieve more control over the cost of the service, as well as the demand for it.

(viii) Performance Indicator Information from Schools

Performance and Finance Select Committee commented adversely at its last meeting on the difficulty in obtaining information from schools to allow the completion of statutory performance indicators, particularly relating to staffing. This has resulted in indicators being qualified by our external auditors. Improvements in procedures have now been put in place. The Council's Scheme of Delegation to Schools does allow reasonable costs to be recovered by the Council from schools where it has to incur extra cost in obtaining such data. It is the intention to make wider use of this provision to ensure all PI's can be accurately completed if problems continue to occur.

(ix) Voluntary Sector Grants

A grants budget of £1,139k, excluding the ALG Grants Committee, has been proposed which is at the same level as 2003/2004. The Executive considered a report on the awarding of Voluntary Grants on 12th November. It was agreed that those organisations which were provided with grants in 2003/2004 would receive the same grant for the first quarter of 2004/2005. This would allow grant applications for the remaining 9 months of the year to be fully considered against new criteria and for further consultation with the Voluntary Sector. These awards will be considered by the Executive before 1st July 2004.

5.10 Environment

(i) Waste and Recycling

The amount of domestic waste the Council is required to dispose of reduced by some 1.2% for the first 9 months of 2003/2004 compared with the same period in 2002/2003 (1,031 tonnes). Part of this reduction can be attributed to the dry summer reducing the volume of garden waste and the fact that dry waste weighs less and therefore reduces costs (charges are based on weight). There are also other

factors including the Councils efforts to prevent Trade Waste entering the domestic stream. Given the vagaries of the British weather this reduction cannot be assumed to continue for the next four years and therefore the budget allows for a modest increase in tonnage of some 1.5% year on year rather than the 6% experienced in recent years. Measures to reduce waste and increase recycling will need to be successful if the budget is to be sufficient. Each 1% increase would cost £44k.

(ii) Recycling Initiatives

On 6th January 2004 the Government announced that they are providing an additional £20m to local authorities with responsibility for waste in England in the form of a one-off grant. Brent's share of this grant has been calculated at £123,222 and while it is targeted at authorities with a need to spend on waste, the grant is not ring fenced and may therefore be spent on other areas of work. This grant is currently not provided for in the budget.

In addition the Government has announced that they will be inviting English authorities to bid for a further £135m to be made available through the Waste Minimisation and Recycling Fund with £90m available in 2004/2005 and £45m in 2005/2006. In London the allocation of funds will be continue to be jointly administered by the Greater London Authority (GLA), Association of London Government (ALG) and London Waste Action (LWA) and the funds available are £13.7m in 2004/2005 and £6.85m in 2005/2006. At the time of writing this report bids have not been formulated and it is likely that these will take the form of joint bids with neighbouring authorities or by West London Waste Authority as a whole and will comprise of a mixture of capital and revenue bids. If the bids are to be successful they are likely to require matched funding over and above provision currently in the budget.

Given the risks highlighted above in terms of disposal tonnage and the potential requirement for match funding to leverage in additional funds from the Waste Minimisation and Recycling fund it is recommended that this grant of £123k is held centrally until such time as bids to the fund are confirmed.

(iii) Parking Control Account

In excess of £0.6m of growth in income to the Parking Control Account compared with 2003/2004 has been included in the budget. This is primarily assumed to come from the number of Penalty Notices issued as a result of bus priority enforcement and the extension of CPZ's. The rate of collection is subject to significant volatility and remains an area of high risk. The additional income is being transferred to the General Fund to help fund various Highways and Transportation budgets.

(iv) New Regulatory Duties

The Council has a wide range of new requirements to meet legislative needs for which growth has been provided in the absence of full funding from Government. This includes:

(a) Liquor Licensing

Liquor licensing has transferred from the Magistrates Court to Local Authorities. The ODPM has announced that the service should be self-funding from fees charged. However, the initial fee levels proposed led to an estimated shortfall of £300k in 2004/2005. New scales are expected to be announced following extensive lobbying by Local Authorities. Until there is any certainty on income the £300k budget has been retained.

(b) Proposed Revision of Food Safety Regulations

This will lead to a significant increase in the number of inspections we are required to carry out. Based on the latest information budget provision has been made for £275k but representations are being made to Government which if successful could reduce this requirement to £101k.

It is proposed that a budget of £300k and £275k respectively is agreed but these will be reviewed when more complete information is available and any excess requirement will be returned to balances.

5.11 Housing

(i) Temporary Accommodation

The Governments funding for the Bed and Breakfast action plan (£1.34M in 2003/2004) ends in March 2004. This initiative sought to make significant reduction in Bed and Breakfast numbers in London. Brent's numbers have fallen from 602 in April 2002 to 203 in January 2004. The Government expects such improvements to be maintained and in addition from 1st April 2004 it is a legal requirement that households with dependent children are only placed in hotel accommodation for a maximum period of six weeks. This potentially means that Housing Benefit will not be receivable for a placement over that period and the Council would have to fund 100% of the Bed and Breakfast costs.

Growth of £724k has been provided in 2004/2005 to continue the various initiatives developed under the action plan to find alternative solutions to hotel accommodation.

(ii) Supporting People

The Supporting People (SP) regime went live in April 2003 and provides Housing support for a number of vulnerable client groups by way of contracts between the Council and Service Providers. These contracts are funded by Supporting People Grant from the Government (Brent is due to receive £13.6m of grant in 2003/2004).

The 2004/2005 allocations have just been announced for 2004/2005 at £13.7m. The budget currently assumes that all costs of providing these services will be fully covered by grant in 2004/2005. However, the allocation has made no allowance for inflation (£328k) and £352k of efficiency savings. If we cannot match expenditure with grant then the shortfall will fall on the Council. The cost of Supporting People services nationally in 2003/2004 was far in excess of Government predictions and they have commissioned both an independent spending review, which is due to report shortly and a full spending review of SP grant nationally. It is possible that these reviews will result in a reduction in SP grant allocations in future years and Brent may be particularly at risk given high average cost of SP services.

5.12 Social Services

Social Services has a number of demand led budgets and is a volatile service delivery environment. There remain a number of high risk areas.

(i) S117 (The Mental Health Act 1983) - Charges for Mental Health Clients

A House of Lords judgement has confirmed that Local Authorities have no power to charge for after care services for clients under s117. Local Authorities are expected to refund any charges made in error to such clients. The financial impact of this could be substantial and depends on several factors on which legal advice is being obtained. The risk is still being quantified but it will remain a potential resource requirement for a number of years as claims are made.

(ii) Changes to Nationality, Immigration and Asylum Act ("Hillingdon Judgement")

New guidance in Department of Health Circular LAC 2003 13 clarifies that a lone child seeking asylum would be owed a duty under section 20 of the Children Act. The child would be a looked after child unless subsequent assessment determined an alternative. This is estimated to cost an additional £520k in 2004/2005. Also a recent high court decision has determined unaccompanied children asylum seekers are eligible for continued help under the Children Leaving Care Act 2000. This is forecast to cost on average £10,000 a year per child for 15 new 'care leavers' in each financial year (£150,000). Duties to failed asylum seekers, overstayers and clients with no resource to public funds in the Physical Disabilities service are forecast to cost an additional £200,000

in 2004-2005, with further growth of £100,000 in the later years of the planning period. Growth has been included within the budget, primarily funded from Government grant, but the level of demand is difficult to assess.

(iii) Reimbursement (Community Care delayed discharges)

Local Authorities are now required to reimburse NHS acute trusts for the costs of any delayed discharges from hospital. These arise whenever a client is ready to leave hospital but Social Services have not assessed the client or been able to supply the form of care needed after hospital (such as a place in a residential care home). Local authorities will be charged a daily rate for every day a patient who is ready to leave hospital remains. The scheme began operating in January so we have little experience on how it will impact on the service and costs. However, we are working in partnership with the PCT to ensure that additional grant funding provided is used to increase capacity for the benefit of clients and minimise the level of fines.

(iv) Changes in Unaccompanied Minors Asylum Seekers Grant

Changes to the grant conditions mean that it may no longer be possible to claim for all indirect administration costs which has been possible in previous years. It seems likely that indirect staffing costs, consequential costs and loss of interest could no longer be eligible for grant. The total value of such items amounted to around £400k in 2002/2003. We will be better placed to assess the risk once the 2003/2004 grant claim has been audited and the detailed conditions for 2004/2005 grant are made available. The ALG continues to make representation to maintain current grant conditions.

(v) Recommendations of Inspection Regimes

Social Services remains subject to number of external inspection regimes. There are times when Inspection reports will require additional financial resources to implement, although the recommendations from the main Inspection Regimes are largely already planned and budgeted for in 2004-5. There remains a slight risk that further actions will be periodically needed.

(vi) Social Services Grants

The level of Social Service Grants, after adjusting for Quality Protects which is now included within the FSS, is over £3.5m higher than the comparable figure for 2003/2004 and amounts to £12.2m.

(vii) Continuing Care

The costs for providing care for all adult clients, including older people, are met either by Health or Social Services according to a banding based on the severity of the client's needs. These criteria are being reviewed which will lead to a change in the balance of the costs. At

this stage however it is not possible to assess the financial impact until all the criteria are agreed and all clients re-assessed.

(viii) Children's Green Paper and Proposed Children's Trusts

Last year the Government published a Green Paper "*Every Child Matters*". This proposed a number of fundamental changes including the establishment of a Director of Children's Services in each English local authority. Detailed legislative proposals are anticipated shortly. £100k has been provided for in the Social Services budget for options appraisal and implementation of the reforms. However, until the requirements are published it is not known whether this will be sufficient.

Central Items

5.13 These are detailed in Appendix F.

Other Major Growth Items

5.14 Remuneration Strategy

The Council faces a range of significant challenges in its approach to pay for its staff. These include implementation of the single status agreement, resolving a range of pay anomalies including London Weighting, and a range of supplements and bonus payments, and putting in place adequate arrangements to ensure the recruitment and retention of suitable skilled staff.

A budget of £1m was established in 2003/2004 which has been utilised primarily to help the retention and recruitment of skilled staff across a range of professions and disciplines such as social workers and surveyors.

On 1st April 2004 contracted hours will change to 36 hours for all staff. Further negotiations will take place with the Trade Unions over the next few months, regarding changes in conditions and the introduction of the new pay spine and the potential consolidation of allowances/additions to pay.

It is the intention that a report will be brought to a future meeting of the Executive setting out on how funds from this budget of £1.4m will be allocated. The budget will be under the joint control of the Director of Human Resources and Diversity and the Director of Finance.

5.15 Investment in Information Technology

From its inception in the mid-1990's the Systems Development Fund has been used to fund Corporate initiatives including the migration from the mainframe and new IT investment for Service Areas.

From 1998, expenditure from this fund focused on the Year 2000 issues. With the leasing arrangements for the Year 2000 coming to an end in

2002/2003 the emphasis of the fund has shifted to the funding of the Authority's E-Government programme and other major IT requirements.

The Council has a range of significant and pressing need for investment in IT ranging from a replacement system for Social Services' current information system (SSID), implementation of the Customer Relations Management System (CRM) and rationalisation of financial systems to name but a few. In addition to the Systems Development Fund (the estimated balance 1st April 2004 is £240k) and specific revenue and capital funding agreed by members or received by way of grant, further revenue funding of £1.1m is proposed for 2004/2005, with £1m per annum provisionally agreed thereafter. A detailed evaluation, prioritisation and monitoring procedure is in place and reported to members, who next have the opportunity to review progress and priority spend for 2004/2005 at the April Executive meeting.

5.16 The Future of Wembley

The Council has published an ambitious Vision For Wembley, setting out an agenda for a once-in-a-lifetime regeneration opportunity for Brent. A £350k budget was established in 2003/2004 under the control of the Chief Executive specifically to support the delivery of this vision. This has been used to commission work and advice relating to land values, transportation, employment potential and environmental impact, as well as to support the assessment of the current large scale Quintain planning application. A budget of £350k has again been included for 2004/2005.

5.17 Capitalisation

The Private Housing Service (PHS) receives some of its funding from the General Fund and from charging some of its activities to Capital. A review of the level of capitalisation for PHS has identified that there is scope to capitalise more of the PHS General Fund costs. The current budget for 2004/2005 assumed that around £250k of their cost will be capitalised. This can be increased to £600k, an increase of £350k. Continuation of this capitalisation for years beyond 2004/2005 is dependant upon PHS continuing with their present level of capital programme (£5m) and the present mix and allocation of works within that programme. At this stage therefore this is considered to be a one-off measure and will be held centrally.

5.18 The Prudential Code

This budget covers the additional financing costs of borrowing, under the Prudential Code, which is not supported through the Local Government Finance Settlement. Details of the financing charges for Supported Borrowing are set out in Appendix F.

Section 7 sets out the capital schemes concerned and Section 9 the Prudential Code in more detail. The charges assume no principal repayments in 2004/2005 and half a year's interest payable in the first year of the scheme.

Provision for Bad Debts

5.19 Each Service Area is required to make adequate provision within its own budgets for income that eventually proves uncollectable. This is reviewed regularly to ensure the provision is sufficient. For example Social Services have made additional provision in 2004/2005 reflecting issues raised by the External Auditor in the audit of the 2002/2003 accounts (see Section 4).

Asset Rents

5.20 The Best Value review of property recommended that the Council adopts a consistent policy for charging for land and property through asset rents. Currently some services have no charge for assets that the Council currently owns. The aim is to reflect more accurate total costs and hence make more effective use of valuable assets. Implementation will require adjustments to budgets later in the financial year.

Potential Resource Requirements

5.21 There are a number of areas where no budget has currently been allocated or the agreed amount may not be sufficient. Members will need to consider these as part of the overall budget package. They include:

- (i) Specific growth proposals, which are not funded, contained within each Service Area SDP's.
- (ii) Items highlighted by Members at the first reading of the budget. (See Appendix E).
- (iii) Areas highlighted by Overview Committee on 20th January. (See Appendix E).
- (iv) Comments on the budget as part of the consultation process. (See Section 3).
- (v) Major Spending Risks

A vital element of the overall budget strategy has been to ensure that the level of balances is maintained. The prime drain in previous years has been from a number of demand led budgets, where the provision agreed was not sufficient to meet costs and the ability to control expenditure was limited in the short term.

We have tried to address these major budgets in 2004/2005 with significant increases compared with the 2003/2004 budgets. However, the risks remain although lessened and other unforeseen items are sure to emerge.

TABLE 2 - Major 2004/2005 Spending Risks

	£'000	% Risk	£'000
<u>Education, Arts and Libraries</u>			
SEN Out Borough Placement and Transport	1,000	30	300
<u>Environment</u>			
Parking Control Account	500	40	200
Waste Disposal	400	25	100
<u>Housing</u>			
Supporting People	500	40	200
<u>Social Services</u>			
Purchasing	1,000	30	300
Staffing	1,000	20	200
S117 Claims	2,500	40	1,000
Other Risks	1,000	20	200
<u>Cross-Cutting and Central Items</u>			
Supply and demand for accommodation Bed and Breakfast/(Temporary Accommodation, Housing Benefit, Asylum Seekers and Children's Service Budgets)	2,000	20	400
Interest Rate Fluctuations	500	10	50
Procurement	300	40	120
Single Status/Recruitment and Retention	500	20	100
Possible Settlement of Legal Claims	400	50	200
New Legislation	200	20	40
Achieving Agreed Savings	500	20	100
Insurance Fund	500	20	100
Estate and Stadium Access Corridors	8,000	5	400
	20,800		4,010

5.22 The above table highlights a number of the main risk areas within the budget where the currently agreed budget may not be sufficient and an assessment of the likelihood of their occurrence. Other sections of the report deal with the above items apart from:

(a) Interest Rate Fluctuations

Most of the Council's debt is fixed but much of the income is derived from cash balances (see Section 8) which are dependent on prevailing interest rates. If returns fall below assumed levels (4%) a budget shortfall may result.

(b) Procurement

A number of major contracts are in the process or will be let over the next financial year. Budgets have to meet the cost of the procurement exercise and the risk of higher prices compared with the previous contract when they are awarded.

(c) Possible Settlement of Legal Claims

A number of claims have been lodged against the Council in respect of contract disputes which are still to be resolved. Even if the Council is successful legal costs can be substantial.

(d) New Legislation

There are a number of examples from previous years where new legislation is passed midway through a financial year, placing new responsibilities on local authorities, with no new resources made available.

(e) Achieving Agreed Savings

There is always a risk that agreed savings will not be achieved.

(f) Estate and Stadium Access Corridors

These are large projects with inherent risks as funding is not fully in place (see Section 7). There would be a relatively low impact initially on revenue because we could borrow to fund a shortfall and debt charges only would need to be met. However, this liability would increase as expenditure on the projects rose and required funding.

5.23 The above analysis is based on items of risk that the Council has already encountered in past budgets. It demonstrates that £4m is the minimum level of balances that the Council must possess going into 2004/2005. However, there are also events which are totally unforeseen and perhaps unprecedented that the Council may have to find resources for. The Government established the "*Bellwin Scheme*" under which it can provide additional financial support to Councils in such one-off circumstances. Costs falling on local authorities in times of serious flooding is one such recent example fortunately not experienced in Brent. These costs however would have to exceed 0.2% of the annual budget (£696k) before Brent would become eligible for support under the scheme. It is therefore arguable that some allowance needs to be made in balances for such eventualities.

5.24 Members also must recognise that the most rigorous financial monitoring will have to be maintained. At the first evidence of a potential overspend immediate action will have to be undertaken to bring this under control. If this potentially could exceed available balances it could involve reductions in services in a number of areas across the Council to avoid a report under Section 114 of the Local Government Finance Act 1988 (see Legal Advice Appendix L).

Use of Balances

5.25 As set out in Section 4, the Council's General Fund usable balances are forecast to be £1,910k at the end of 2003/2004. The table below sets out the position for 2004/2005 as currently reflected in Appendix B.

	£'000
Total Estimated Reserves Held at 31 st March 2004	1,910
Plus Contribution to Balances	2,090
Estimated Balances 2004/2005	4,000

Overall Financial Position

5.26 The Services' budgets, central items and contingencies described above and as set out in Appendix B give a total budget of £347.415m.

5.27 As stated in the Legal Advice the Director of Finance is now required under Section 25 of the 2003 Local Government Act 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 made. The Council also has high and rigorous budget monitoring arrangements during the year and a policy of restoring balances once used. The combined approach enables the Director of Finance to recommend that the Council maintains a relatively low level of revenue balances. It is the Director of Finance's view that the budget proposals set out in this report present a balanced budget in terms of providing sufficient resources to fund the planned level of services provided that balances of at least £4m are maintained.

5.28 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 is set out as follows based on the budget in Appendix B.

Calculation under Section 32 Local Government Finance Act 1992:

	£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.	731.460
(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.	384.045
(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.	347.415

Matters to Consider in Setting the Budget

- 5.29 It is appropriate at this stage to remind Members of the full range of matters which they should take into account in setting the budget. The Council is no longer constrained by a pre-set capping limit, however the Government have indicated that excessive increases will be capped. Further details are provided in Section 10.
- 5.30 The context in which Members set the budget is financially very tight. There is no specific contingency, and only £4m available for balances. The External Auditor has commented unfavourably on the low level of the Council's balances and the need to increase these. Members attention is also drawn to the projected position in future years (set out in Section 11).
- 5.31 Members have a wide range of options available to them:
- (a) they could increase the budget and level of Council Tax to improve the Council's reserves or invest some of it in service priorities subject to the information on capping;
 - (b) they could agree the budget as set out in the report and proposed by the Executive;
 - (c) provided they are satisfied that they can be achieved, they could agree more savings than set out in this report in order to further reduce Council Tax or increase reserves.

5.32 The table below sets out the implications for Council Tax of an increase or reduction in Brent's expenditure compared with the current budget. This incorporates the GLA budget for a precept of £241.33. It amounts to a 7.5% increase compared with 2003/2004.

		Current Position	Expenditure - £1m	Expenditure + £1m	Expenditure at FSS
Brent's Budget Requirement (£m)		347.415	346.415	348.415	353.235
Council Tax Band D	£	899.83	889.04	910.62	962.65
GLA Precept at 7.5%	£	241.33	241.33	241.33	241.33
Total Council Tax Band D	£	1,141.16	1,130.37	1,151.95	1,203.98

5.33 The table illustrates that each £1m fall or rise in expenditure decreases or increases Council Tax by £10.79 at Band D for the Brent element of the tax.