

# LONDON BOROUGH OF BRENT

**Meeting of Full Council – Monday 29<sup>th</sup> November 2004**

## Report from Director of Finance

For Action

Wards affected:  
ALL

**Report Title: 1<sup>ST</sup> READING OF 2005/2006 BUDGET**

### 1. SUMMARY

- 1.1 This report sets out the main parameters surrounding the setting of the budget and Council Tax for 2005/2006 and subsequent years. The report forms the background to the Executive's report to Council as required under Standing Order 25(a).

### 2. RECOMMENDATIONS

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

### 3. DETAIL

#### 3.1 Framework of Report

- 3.1.1 It is intended to set out a budget framework for 2005/2006 and the following two years. In order to do this a wide range of parameters need to be considered. Each of the following sections and associated appendices considers one area at a time.

The sections covered are:

- Section 3.2 - External Funding
- Section 3.3 - Budget Matrices, Savings and the Gershon Review
- Section 3.4 - Growth Bids
- Section 3.5 - Schools Budget
- Section 3.6 - Central Items and Risks
- Section 3.7 - The Prudential Code and Capital Spending
- Section 3.8 - LGA 2003: Robust Budgets and Adequate Balances
- Section 3.9 - Implications for Council Tax

Section 3.10 - Corporate Strategy Update  
Section 3.11 - Timetable

3.1.2 It should be emphasised that this report represents a summary of the main items that Members need to consider when setting the budget. It has been prepared by Officers taking into account statutory responsibilities, service pressures, government exhortations and the Corporate Strategy. In particular indicative Council Tax levels are only a mechanical adding up of all the numbers, and do not assume any policy choices or prioritisation. It does not at this stage represent the views of the Executive or any other group of Members including Full Council.

### **3.2. External Funding**

3.2.1 The level of central government support to the Council in the near future remains uncertain. The provisional finance settlement was originally expected in week commencing 15 November, but is now expected to be delayed by at least two weeks from then. Our latest forecasts take into account:

- (a) The published outcome of Spending Review 2004.
- (b) Changes to the regime of specific grants including transfers to and from general grant.
- (c) Data changes, especially population counts.
- (d) Revisions to earlier years, including the complete re-run of the 2003/2004 and possibly 2004/2005 settlements.
- (e) The possibility of extra resources being added to the settlement to reduce the large increase in the Assumed National Council Tax implied by the latest figures.

3.2.2 Appendix 1 sets out the estimated increases in planned central government support to local authorities as set out in the Spending Review 2004. These have been used as the basis for the assessment of future grant.

3.2.3 The government has reaffirmed its commitment to continuing the current regime of limits to annual grant changes both upwards and downwards, called ceilings and floors respectively. They have not yet said what the level of floors and ceilings will be in 2005/2006, but data and other changes suggest that Brent will not be affected by these.

3.2.4 We expect the following transfers of function or financing next year:

- (a) The ending of our need to pay a Magistrates' Courts levy with a broadly-comparable reduction in our Formula Grant.
- (b) Reductions in either Preserved Rights Grant or Residential Allowances or both, amounts to be decided.
- (c) The doubling of Civil Defence Grant and it being moved into Formula Grant.

3.2.5 Another uncertainty facing the Council is the impact of data changes on the Authority. The Office for National Statistics has revised our population yet again, increasing the estimate for 2001 but reducing those for 2002 and 2003 sharply. Other London boroughs have had similar results. As a result:

- (a) Our 2005/2006 settlement is likely to suffer directly from the loss of population in 2003.
- (b) The Government has said it will re-run the 2003/2004 settlement using the revised 2001 figures. We are sure to be at the ceiling, but this ceiling may be the same, higher or lower than previously and we will have our grant changed accordingly.
- (c) The Government may re-run the 2004/2005 settlement using revised 2002 population figures too, or it may delay until next year. Our FSS will fall in 2004/2005 and we may well lose grant as a result.

3.2.6 Appendix 1 sets out the range of possible levels of grant that Brent Council may receive in 2005/2006 and subsequent years. There are three grant figures given:

- (a) the worst outcome that is plausible;
- (b) our central estimate based on all known factors;
- (c) the best outcome that is plausible.

3.2.7 Members will notice that there remains considerable uncertainty and that this uncertainty increases over time.

### **3.3 Budget Matrices and Savings**

3.3.1 Each Service Area has been asked to produce base budgets for a minimum three year period based on a range of standard assumptions. These include:

- (a) An allowance for pay inflation of 2.95% per annum in 2005/2006 and 2006/2007. This level represents the agreed increase of a 3 year agreement beginning in 2004/2005. 3% is assumed in subsequent years.
- (b) Price inflation of 2.0% per annum.
- (c) Inclusion of previously agreed and committed growth and savings as set out in the Budget Report agreed by Council on 1<sup>st</sup> March 2004.
- (d) Identifying 2% savings (excluding the schools budget).

3.3.2 A summary of the resulting cash limits is set out in Appendix 2. It should be noted that at this stage Members have not agreed the 2% savings options. They will be presented as part of the Service Development Plans, which will be reviewed by the Executive on 13<sup>th</sup> December. A summary of the savings proposals is set out in Appendix 3. This report assumes these savings will be agreed in their entirety. If this is not the case net expenditure will rise by a corresponding amount.

3.3.3 As will become clear later (see in particular section 3.9), the overall budget position is potentially very tight. Therefore it is possible that service areas will need to identify further savings options. If so these will be considered by the Executive alongside the growth bids prior to the Executive producing its final budget proposals in February 2004. At this stage no proposals have been produced and no allowance has been made for this exercise in this report.

#### The Gershon Review

3.3.4 As part of the 2004 Spending Review, the Government published the results of the 'Independent Review of Public Sector Efficiency' (the Gershon report). Target savings from efficiency measures across the public sector were set at £21.5 billion per annum by 2007/08. Target savings in local government were set at £6.45 billion per annum by 2007/08. In both cases these equate to efficiency savings of 2.5% per annum between 2005/06 and 2007/08.

3.3.5 The Gershon review identified the following work streams for delivering the savings in local government:

- Procurement;
- Back-office functions – such as HR, finance, ICT, legal, and facilities management;
- Transactional services – such as council tax collection and benefits administration; and
- Productive time of staff.

3.3.6 The Council already has a corporate procurement strategy and is working with other councils through the Centre for Procurement Excellence and the West London Alliance to maximise the benefits from joint procurement. In addition, there is on-going work on process improvement, often tied in with the implementation of new IT systems. Savings proposals in Appendix 3 include efficiency savings of £1.625m in 2005/06 and a further £0.633m in 2006/07.

3.3.7 Councils are now being encouraged to produce an overall efficiency programme aimed at using new technology and other means to deliver efficiency savings across the range of functions carried out. Whilst ODPM are still consulting on it, it is likely that the Council will have to produce an Annual Efficiency Statement in April 2005 on its programme for delivering efficiency savings and report on actual efficiency savings achieved in June 2006. The results will be taken into account by the Audit Commission in determining the annual CPA rating.

3.3.8 The work to deliver improved efficiency across the council is being brought together under a single Gershon Programme Board so that a programme for maximising efficiency gains – and fully recording them – is put together. Progress on this will be reported to the Council budget making meeting on 28<sup>th</sup> February 2005. Savings, in addition to those already proposed, may arise during 2005/06, but at this stage it is too early to estimate what those might be. For the Gershon programme to be successful it needs to look at

delivery of efficiency savings over a longer period of time. There will be some 'quick wins' but the bigger savings come over a longer period of time.

### **3.4 Growth Bids**

- 3.4.1 Service areas have prepared a set of growth bids to address a number of different issues including the priorities of the Corporate Strategy, new statutory and regulatory requirements, government exhortations, and service pressures (such as growth in client numbers, volume of service or unit costs). These are set out in Appendix 4. All of these bids need to be thoroughly evaluated by officers to ensure that they represent the correct amounts to achieve their objectives. Members will still need to agree whether or not to accept these bids, and in which year they should be implemented. These bids include those growth items previously considered and included in the indicative cash limits for 2005/2006 when the Council set the budget for 2004/2005 on 1<sup>st</sup> March this year.
- 3.4.2 Total growth bids on these schedules amount to £10.432m in 2005/2006, an additional £3.417m in 2006/2007, and £1.665m in 2007/2008. These are significant sums and Members will need to consider them very carefully before agreeing to them, given the implications they will have for either the level of Council Tax or the extent of additional savings required. Each £1m of growth add £10.79 on Council Tax at Band D.
- 3.4.3 The schedule of growth bids set out in Appendix 4 exclude those from Education Arts and Libraries in respect of the schools block. The "*passporting requirement*" figure is our estimate of the amount needed in the Service Area cash limit for schools to meet the Government's passporting requirements. This amounts to £9.789m in 2005/2006.
- 3.4.4. The final point to note about the presentation is the treatment of "*agreed growth*". Growth included in cash limits at the time the 2004/2005 budget was set in respect of 2005/2006 is included in the Service Area cash limits. However this growth is also included in the growth schedules in Appendix 4 and therefore in the "*total growth bids*" line of the summary table (Appendix 5). To remove this double counting a line called "Agreed Growth Reversal" has been added to the summary table.
- 3.4.5. There are a number of other items of growth included in the overall budget proposals, outside of specific service area requirements. These are in the main dealt with in section 3.6.

### **3.5 Schools Budget**

- 3.5.1 Under the Education Act 2002 as amended by the Local Government Act 2003, Councils are required to submit their proposed budget for schools to the Secretary of State for Education and Skills by the end of December preceding the start of the financial year. The Secretary of State has the power to question these proposals and ultimately impose a higher minimum budget than that proposed by the Council. The schools budget includes the devolved

schools budget, out-borough SEN placements, devolved Students fund, Nursery Schools and other SEN and early years provision

3.5.2 The Secretary of State for Education has announced the arrangements for schools budgets in 2005/2006; these are similar to those for the current year. The key elements are:

- (a) Each school with no change in pupil numbers would be guaranteed a 4% increase per pupil in its budget (Secondary) or 5% (Primary) with slightly more per pupil where numbers were dropping and slightly less where they were increasing.
- (b) The schools block FSS would increase by a minimum of 5.5% per pupil for every authority with a maximum per pupil to be determined later. Although this is the final year of the current school funding arrangements, the Government would expect an increase in the schools budget of at least the increase in Schools FSS with a threat to intervene if this did not happen.
- (c) No authority can increase its non-delegated part of its schools budget (mainly provision for SEN) by a greater percentage than it increased its delegated schools budget without permission. Authorities can ask for an exemption from this by application to the Secretary of State by 31 December if they do not intend to passport and by 14 February if they do intend to passport.

3.5.3 In preparing this report, Officers have taken account of these requirements and have included growth for schools sufficient to ensure that the increase is equivalent to the estimated increase in FSS. Once the settlement is known the estimated growth required for schools will be revised to meet the requirements of the Secretary of State's announcement.

3.5.4 The Council may again want to increase its non-delegated schools budget by a higher percentage than its delegated schools budget. However it will not know this until the settlement has been studied.

### **3.6 Central Items and Risks**

3.6.1 There are a number of adjustments that have been made to non-service area budgets and central items since the indicative figures for 2005/2006 were published in March. These are set out in Appendix 6.

3.6.2 The main changes to note are:

- (a) *Concessionary Fares* - Transport For London (TFL) have announced average fare increases of 10% for the next two years. This has a corresponding impact on the Concessionary Fares budget, with an increase of £700k per annum forecast on the base budget held by Social Services.
- (b) *Children Bill* - £600k has been included to meet the requirements of the Children Bill. This is subject to more detailed work, and a report

with specific proposals during the budget process. It is possible that specific grants will be made available for implementation costs.

- (c) *Ward Working* - Full Council in June had agreed in principle to the scheme being rolled out to all wards in 2005/2006. £1.7m represents the estimated costs.
- (d) £750k of the provision made for decanting costs associated with the redevelopment of South Kilburn has been deferred, as it is clear that this will not be needed fully in 2005/6.
- (e) Provision has been made for the estimated increase in employer's pension contributions that will be needed from 2005/2006 following the Actuarial Valuation, the report has yet to be finalised, so all figures remain provisional.
- (f) The overall budget for debt charges has been reduced by £1m compared to earlier estimates to account for the savings made by the debt restructuring activity undertaken by the Treasury Management team in BFS.

3.6.3 The overall budget estimates also contain a contingency provision. This is essential, as it is inevitable that additional demands will arise that cannot yet be forecast. Experience over the past few years has demonstrated the practical need for such a contingency.

3.6.4 Until Members have taken provisional views about growth, savings and Council Tax levels, it will not be possible to assess all the financial risks included in the budget. Areas of the budget may give rise to pressures not fully covered by the base budget or growth. There are challenges associated with achieving all the savings identified and if the budget is built on the assumption that they will be, then risk of failure rises.

3.6.5 Section 3.8 deals with the need for balances to cover risks.

### **3.7 LGA 2003: The Prudential Code and Capital Spending**

3.7.1 One of the most significant recent changes affecting local government finance was the introduction in the Local Government Act 2003 (LGA 2003) of the new "prudential" capital control regime.

3.7.2 The new regime permits local authorities to borrow as they see fit for capital purposes, subject to fulfilling the requirements of the Prudential Code published by CIPFA. The essential requirements of the code are that borrowing and the associated capital spending must be affordable, prudent and sustainable, value for money, linked to the Council's service objectives, and capable of practical delivery. The Director of Finance is required to provide advice on what the local prudential limit on borrowing and in particular the limit for the capital financing requirement should be.

- 3.7.3 The key test is affordability. The code requires that the incremental cost of the increase in capital expenditure over that previously agreed, for the next financial year and the following two, measured in terms of Band D Council Tax is presented as part of the decision making process.
- 3.7.4 Appendix 7 sets out the existing capital programme. Capital bids are currently being compiled, and until these are completed and considered, the full impact on the revenue budget cannot be accurately qualified. The summary budget (Appendix 5) sets out the revenue consequences of the increase in the capital programme consistent with funding all of the currently agreed programme with no allowance for new bids.
- 3.7.5 It will be still be possible to look to a range of alternative funding arrangements in order to fund many of the capital bids. This will include options such as PFI, making use of other bidding regimes, and deals with partners such as the PCT to use schemes such as "Lift".
- 3.7.6 Members are invited to consider what their main priorities are.

### **3.8 LGA 2003: Robust Budgets and Adequate Balances**

- 3.8.1 The Local Government Act 2003 requires the Chief Financial Officer to report to Council at the time it makes decisions about the budget and Council Tax on the "*adequacy*" of reserves or balances and the "*robustness*" of the budget calculations.
- 3.8.5 This report before the Council today does not constitute a complete budget as has already been explained. They are a list of growth bids, which need to be considered and prioritised by Members. Additionally Officers still need to ensure that the value placed against each bid is sufficient to meet the need described. Once that process has been undertaken it will be possible to estimate what risks remain in the budget and together with the other financial risks facing the Council estimate a minimum level of revenue reserves required. On the basis of the information that is currently available, the required minimum level of balances will not be less than the £4 million that the Council budgeted for in 2004/2005. In order to be consistent with the agreed Medium Term Financial Strategy, which seeks to build up the level of balances, a contribution of £3m is assumed in Appendix 5.

### **3.9 Implications for Council Tax**

- 3.9.1 Appendix 5 summarises the overall financial situation set out above. It represents merely an arithmetic calculation of the base budgets plus all the growth less all the savings currently identified. It also assumes a rise in the Greater London Authority (GLA) precept of 15% each year. This appears a realistic and prudent option, given the current estimates being provided by the component bodies of the GLA for their 2005/6 estimates. Ranges of possible Council Tax levels reflect differences in the levels of external funding. Provision has also been made to reflect the need to eliminate the deficit on the collection fund.



3.9.2 The large increases for 2005/2006 largely reflect the front loading of the growth bids. The actual level of Council Tax that Members set will depend not only on the level of grant the Council receives, but also on decisions Members have still to make about the level of growth and savings.

3.9.3 Members should also be mindful of ministers' warnings that they will not hesitate to use capping powers if increases in Council Tax are deemed to be excessive. A number of authorities were capped in 2004/05, and Members will be provided with more specific advice later in the budget process.

### **3.10 Corporate Strategy Update**

3.10.1 Attached at Appendix 8 is a progress report on the implementation of the Corporate Strategy. All of the growth proposals set out in this report have taken account of the requirements of the Corporate Strategy and where appropriate have been devised to meet the objectives of the strategy.

### **3.11 Timetable and Next Steps**

3.11.1 Appendix 9 sets out the key dates over the next few months in the budget setting process. This is explained more in the legal implications section of this report.

3.11.2 The Executive will receive the Service Development Plans at its meeting on 13<sup>th</sup> December 2004 and will have the opportunity then to give further instructions to officers on the preparation of budget options. It will also agree then the proposed budget for schools as required under the Education Act 2002 as amended by the Local Government Act 2003. The Executive proposes to publish its final budget proposals after its meeting on 14<sup>th</sup> February. The Council will make final decisions on the budget and Council Tax at its meeting on 28<sup>th</sup> February 2005.

## **4. FINANCIAL IMPLICATIONS**

4.1 The report is entirely concerned with financial implications.

## **5. LEGAL IMPLICATIONS**

5.1 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. Another report on tonight's agenda proposes changes to Standing Orders which affect the process for developing the budget (the "Constitution Report"). If agreed, the changes in the Constitution Report will become effective at the end of the Council meeting and will govern the budget development process from then on. This section of this report therefore explains the effect of Standing Orders without the changes proposed in that report and the arrangements that will apply if the proposed changes are adopted.

- 5.2 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 expenditure priorities. This report sets out the required information. There will then follow a debate on the issues raised herein, which will be conducted in accordance with Standing Order 45. These requirements are unchanged by the proposed amendments in the Constitution Report.
- 5.3 Currently, Standing Orders provide that following the debate on this report, the report and minutes of the debate will be referred for consultation to the Overview Committee following which the Executive will meet to produce detailed proposals for the budget.
- 5.4 If the changes to the Standing Order 25 proposed in the Constitution report are agreed by members then, following the First Reading Debate, a record of the debate will be sent to the Leader and to the Chairs of Overview and Scrutiny. The Executive will take issues raised in the debate into account when preparing their detailed proposals for the budget and those proposals will then be submitted to a joint meeting of the Overview and Scrutiny Committees.
- 5.5 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 35. 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.

## **6. DIVERSITY IMPLICATIONS**

- 6.1 Services have considered diversity implications in preparing their draft service development plans and putting forward growth and savings proposals. There will be on-going screening for diversity implications as budget proposals for 2005/06 are firmed up.

## **7. STAFFING IMPLICATIONS**

- 7.1 A number of options for change set out in the report have significant implications for the numbers and type of staff employed. Full implications will be set out in due course once detailed reports on the options have been prepared for consideration and decision by the Executive or Full Council as appropriate.

## **8. BACKGROUND PAPERS**

1. Council Tax and Budget Report – Full Council 1<sup>st</sup> March 2004.
2. The Prudential Code for Capital Finance in Local Authorities - CIPFA Publications.

3. Local Government Act 2003 and Associated Regulations.
4. Corporate Strategy.

Any person wishing to inspect these documents should contact Committee and Member Services, Room 106, Brent Town Hall, Forty Lane, Wembley, Middlesex HA9 9HD. Tel 020 8937 1353.

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