2005/2006 BUDGET AND COUNCIL TAX

EXECUTIVE SUMMARY

1. The budget report sets out the key decisions Members are asked to make on:
   - the 2005/2006 General Fund revenue budget;
   - the 2005/2006 Housing Revenue Account;
   - the council's capital programme for 2005/2006 to 2008/2009;
   - 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 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 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 service development plan which was presented to Full Council on 29th November 2004 and was subsequently considered at the Executive on 13th December 2004. Members had their first opportunity to debate the budget at the First Reading debate at Full Council on 29th November 2004. The Executive considered this report at its meeting on 14th February 2005. The Executive's recommendations are due to be scrutinised at a joint meeting of Overview and Scrutiny on 22nd February 2005, draft minutes of which will be circulated to Full Council before 28th February. Full Council on 28th February will make the final decisions on the budget. 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 which has supported proposals on the size and allocation of the Schools' Budget.

6. The *2004/2005 probable outturn* for the General Fund budget is covered in *Section 4*. Spending has been maintained within budget in most areas in 2004/2005 and the result of this, together with additional balances brought

forward from 2003/2004 and reductions in central provisions required, is that balances are now forecast to be £7.065m at 31st March 2005. The result is that the council is forecast to achieve the target of £7m of balances at 31st March 2006 a year early. The achievement of this is dependent on service areas maintaining rigorous budget discipline to the end of the current financial year. The benefit is that the £3m contribution to balances in 2005/2006 to achieve the £7m target, which was included in the budget projections which went to the First Reading debate, is no longer required.

7. *Section 5* deals with the key spending decisions. The Executive recommends an overall budget at £367.234m, which, after taking account of resources available, would lead to an increase in the Brent element of the council tax of 3.3%. This budget figure includes a total of £6.8m in levies from West London Waste Authority, Lea Valley Regional Park Authority, the London Pension Fund Authority, and the Environment Agency. The council has no direct control over these but must pay for them from its own resources.

8. The key decisions Members need to take on the 2005/2006 General Fund budget are as follows:
   - Agreeing or varying the schools' budget which this report recommends is set at the passporting level of £152.016m, which includes a council contribution of £141.771m;
   - Agreeing or varying the service area budgets for other services, which are detailed in Appendix C, incorporating growth and savings outlined in Appendix D;
   - Agreeing or varying the overall budget for service areas in 2005/2006 which this report recommends should be set at £328.264m;
   - Agreeing or varying growth for other items not included in service area budgets, amounting to £2.379m;
   - Agreeing or varying the budget for central items which is set at £36.656m, and is detailed in Appendix F;
   - Agreeing or varying use of £65k of balances carried forward from 2004/2005;
   - Agreeing or varying the overall budget requirement of £367.234m.

9. 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.

10. 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 development of their service development plans, 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.

11. 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 social services children's and adults' budgets, the Special Education Needs budget in EAL, and the temporary accommodation budget in Housing;
   - risks from new legislation, where the council faces uncertainty about the costs of implementing new legislation. Key areas are the Freedom of Information Act, new licensing arrangements, and the Children Act;
   - risks from legal challenges. A recent example is a challenge from a former leisure services provider;
   - partnership risks, where the council depends on delivery by partners. The main area here is our work with health where we depend on each other, for example, to meet government bed blocking targets;
   - 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 as a result of re-tendering for contracts;
   - 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; and
   - risks of overspend on major capital schemes, such as the Stadium Access Corridor.

12. The level of balances is also a major issue for Members to consider. The achievement of target balances of £7m one year early means the council does not need to budget for a contribution to balances in 2005/2006. In addition, it is forecast that £65k will be available to fund the budget in 2005/2006. On the basis of risks identified within the budget, the Director of Finance's advice is that:
   - The minimum prudent level of balances is £4.1m, 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, is £7m, 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.

13. 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 2005/2006 on 27th January 2005. Overall the council will receive external funding (excluding specific grants) of £282.084m in 2005/2006.

14. This leaves a total of £86.333m which is needed to fund the proposed budget requirement of £367.234m and Brent's share of the Collection Fund deficit of £1.183m. Using the council tax base of 92,879 Band D equivalents agreed by Full Council on 31st January 2005, the Band D Council Tax for Brent services would be £929.52 in 2005/2006. This is 3.3% higher than the 2004/2005 Band D Council tax for Brent services of £899.83.

15. The proposed increase of 3.3% in the Brent council tax is in line with current inflation levels and well below the average increase of under 5% that the Minister of State for Local Government and the Regions says he expects in 2005/2006. 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.

16. 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. The Greater London Assembly meeting on 14th February 2005 agreed a GLA precept at Band D for 2005/2006 of £254.62, which together with the proposed council tax for Brent services, would lead to an overall council tax at Band D of £1,184.14. The GLA precept is 5.5% higher than in 2004/2005, and, together with the 3.3% increase for Brent services, the increase in the overall council tax for Brent residents is 3.8%.

17. *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. It looks at forecast spending in service areas, taking account of the 2% per annum budget savings built into service area cash limits; it identifies growth commitments in future years; it forecasts provision required for central items, including funding needed to meet capital financing charges arising from the capital programme; and it identifies pressures on resources, particularly as a result of changes to funding arrangements for schools, Office for National Statistics population estimates, and the possible introduction of other 2001 Census data into grant calculations form 2006/2007 onwards.

18. It is anticipated that the council's grant increase will be at the floor in future years (as opposed to the ceiling increase the council received until 2004/2005). There will need to be careful budget management and good service and financial planning to allow the council to continue to deliver improved services without excessive increases in council tax. The effective medium term financial management of resources is essential to the maintenance of good quality service provision. This will be reinforced by government proposals to introduce 3 year revenue and capital settlements from 2006/2007 onwards.

19. The Housing Revenue Account, which covers the activities of the council as landlord for approximately 9,700 dwellings, is dealt with in *Section 8*. The HRA is separate from the General Fund and is ring-fenced – ie HRA expenditure is met from HRA resources, which primarily consist of government subsidy (Housing Revenue Account Subsidy) and rents. The Executive, at their meeting on 14th February 2005, agreed rent changes that will lead to an average rent increase of £2.76 per week. The increases take account of the government's guidelines on convergence between rents charged by councils and Registered Social Landlords (mainly housing associations). Whilst the Executive has agreed the rent increase, the overall HRA budget is part of the overall budget decision by Full Council on 28th February 2005.

20. The council's overall *capital programme for 2004/2005 to 2008/2009* is dealt with in *section 9.* It is a four year rolling programme, which is based on the capital strategy. Its aim is to provide the capital required to deliver the council's priorities and to ensure maintenance of the council's existing assets. Overall capital spending in 2005/2006 is forecast to be £90.398m, with £49.927m spent on General Fund assets and £40.471m on HRA assets. Total spending on General Fund capital assets can be financed within previously agreed levels of unsupported borrowing in 2004/2005 of £13.842m and in 2005/2006 of £12.927m. 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. There is no unsupported borrowing in the HRA in 2005/2006 although it was agreed at the Executive on 17th January 2005 that up to £10m would be needed in 2006/2007 for the South Kilburn Development, with revenue costs being funded from additional rental streams. The council contribution to funding for the South Kilburn Development is reflected in the figures in the main report.

21. Additional resources have been identified since the capital programme presented to the First Reading debate and this has allowed additional funds to be put into environment and education, two areas identified by Lead Members as priorities, whilst eliminating the need for additional unsupported borrowing to fund the deficit.

22. The largest single issue on the capital programme is funding of education requirements. The council has not been included in Wave 2 or 3 of Building Schools for the Future. In addition, Section 106 funding for additional school places from the Quintain development will only be available once developments start to be completed. The proposals in the report involve a combination of measures, including funding education schemes at a level that exceeds the government's allocation of supported capital expenditure, rescheduling schemes in the existing capital programme, and only including those schemes that are the highest priority. As a result, the proposed programme includes funding for the rebuild and expansion of Wembley Manor School, provision of additional secondary places, reshaping Special Education Needs provision, and carrying out building improvements at the John Kelly schools, in addition to priority hut replacement and building conditions work. But additional funding will be required to purchase land if the council gets

approval to rebuilding and expanding the John Kelly schools. In addition, the amount provided for new pupil places is currently insufficient to meet all new demands. The council will be looking to use other sources of funding to boost provision of additional places, including Section 106 funding as it comes on stream.

23. The *treasury management strateg*y is set out in *section 10*. The council has total borrowing of around £520m and total investments of around £80m. 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.

24. 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 11* 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.

25. *Section 12* 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 12 seek to ensure this happens.

26. Setting the budget and council tax is one of the most important decisions Members take during the year. Decisions can affect the services received by the people of Brent and the level of council tax they pay. The legal basis on which the budget and council tax is set is also carefully defined in statute. *Appendix M* sets out advice from the 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 28th February 2005.