

## **SECTION 5**

### **5. THE 2006/07 REVENUE BUDGET REQUIREMENT**

#### **Introduction**

- 5.1 This section details the 2006/07 revenue budget.
- 5.2 The budget proposals for 2006/07 reflect the priorities for the Administration. These were set out in the report from the Executive to the First Reading debate on 28th November 2005, and are based on the priorities set out in the Corporate Strategy of:
- Supporting children and young people;
  - Promoting quality of life and the green agenda;
  - Tackling crime and community safety;
  - Regenerating the borough and priority neighbourhoods; and
  - Achieving service excellence.
- 5.3 The process for developing the budget within the context of the Corporate Strategy is set out in Section 3 of the report.
- 5.4 In reaching their decisions on the budget, Members need to consider the following issues:
- The balance between spending and council tax. Members have to balance the interests of Brent residents as users of services and members of the local community against their interests as local taxpayers;
  - The purpose and impact of budget growth proposals;
  - The deliverability and impact of budget savings proposals;
  - The adequacy of budget provision for central items;
  - The sustainability of the overall budget in the current year, including consideration of risks and the appropriate level of balances; and
  - The sustainability of the overall budget in future years, taking account of future commitments and the likely availability of resources.
- 5.5 Under the 2003 Local Government Act, the chief finance officer of the authority (in Brent's case, the Director of Finance and Corporate Resources) must report on the robustness of the estimates made in the annual budget calculation, together with the adequacy of financial reserves.
- 5.6 The budget proposals in this section have been developed following guidance from the Director of Finance and Corporate Resources and have been through a robust process of development and challenge. The Director of Finance and Corporate Resources is therefore confident about the robustness

of the estimates. In addition, the level of balances recommended for 2006/07 of £7.8m is, in the Director of Finance and Corporate Resources' view, sufficient to allow for the risks identified and to support effective medium term financial planning.

5.7 This section of the report sets out:

- Service area budgets, including recommended growth and savings in each service area;
- Provision for central items within the budget;
- The main risks within the budget;
- The level of balances Members are recommended to agree; and
- The statutory calculations required for gross expenditure, income, and overall budget requirement.

5.8 The budget requirement that results from the proposals in this section is £235.513m (see Appendix B). After allowing for Brent's share of the deficit in the Collection Fund of £1.178m, this would produce a Council Tax at Band D for Brent services of £950.13, which is 2.2% above the 2005/06 level of £929.52. Details of the council tax calculation, and the GLA precept, are given in Section 6 below.

### **2006/07 Service Area Budgets**

5.9 The process for developing service area budgets, including provision made for pay and price inflation, the development of growth and savings proposals, and the links to service development plans, has been set out in Section 3 above.

5.10 The First Reading report to Full Council on 28<sup>th</sup> November 2005 included proposed savings for individual service areas, together with a full list of potential growth. These lists have now been amended to take account of discussions within the Administration of priorities that they wish to support in 2006/07, which were confirmed at the Executive on 13<sup>th</sup> February 2006. Service area budgets have been revised to incorporate these growth and savings proposals for 2006/07. For 2007/08 onwards savings have been set at 2% per annum, and growth commitments have been excluded from service area budgets and are addressed within the medium term forecast in section 7 below.

5.11 The revised service area budgets are in Appendix C; the growth items are in Appendix D(i); the savings items are in Appendix D(ii); and other adjustments within the service area cash limits are in Appendix D(iii).

5.12 Table 5.1 below shows the changes in budget at service area level between 2005/06 and 2006/07.

**Table 5.1 Service Area Budgets**

	2005/06 Revised Budget £'000	Inflation £'000	Growth £'000	Savings £'000	Other Adj'ments £'000	2006/07 Budget £'000	% Growth 2005/06 to 2006/07 %
Corporate	21,937	570	77	(778)	(794)	21,012	(4.2)
Children and Families	42,071	1,051	920	(857)	1,258	44,443	5.6
Environment and Culture	41,990	1,205	2,038	(907)	148	44,474	5.9
Housing and Community Care:							
- Housing and Customer Services	18,986	343	283	(502)	(1,220)	17,890	(5.8)
- Adults and Social Care	65,403	1,503	2,959	(1,100)	1,861	70,626	8.0
<b>Total</b>	<b>190,387</b>	<b>4,672</b>	<b>6,277</b>	<b>(4,144)</b>	<b>1,253</b>	<b>198,445</b>	<b>4.2</b>

Member decisions on service area budgets

5.13 Subject to agreeing the growth, savings and other adjustments set out below, and detailed in Appendix D, Members are asked to agree the service area budgets set out in Table 5.1 above and detailed in Appendix C.

**Growth within 2006/07 Service Area Budgets**

5.14 Details of proposed growth are included in Appendix D(i). Appendix D(i)(a) includes growth to meet demand pressures and cost pressures, and replace lost income. The total of growth for these reasons is £5.080m in 2006/07. Appendix (D)(i)(b) includes growth to meet service priorities, which is £1.347m in 2006/07. Appendix (D)(i)(b) includes two growth items outside service area budgets totalling £150k which are not included in Table 5.1. Members are asked to agree these growth items in Appendix D(i).

Member decisions on growth

5.15 It is for Members to decide whether the growth priorities identified in Appendix D(i), and other growth not allocated within service area budgets, are the right priorities. In some cases, where there are increases in demand pressures, failure to agree growth would in effect lead to a reduction in service. In addition, in some instances growth is required to meet statutory requirements. Members need to be aware of these issues when they consider their decisions.

## Local Area Agreement

- 5.16 The council will also generate additional income on a one-off basis through the successful delivery of its Local Public Service Agreement targets for 2003/04 to 2005/06. Current forecasts indicate that the council will achieve most of the targets in the LPSA and as a result receive a total of £5m Performance Reward Grant over two years – 2006/07 and 2007/08. In addition, the council will be entitled to a further £1m pump priming grant for the second round LPSA which runs from 2006/07 to 2008/09.
- 5.17 The council is currently in discussion with the Government Office for London (GOL) and local partners about how this income can be used to support delivery of outcomes within the Local Area Agreement. The council was successful in its bid to become a round 2 Local Area Agreement pilot and has, together with local partners, agreed the key outcomes expected from the Local Area Agreement – welcoming streets and parks, access to leisure, local employment, longer, healthier lives, settled homes, early success, volunteering, and value for money. Targets are being set for each of these areas and these will be delivered by a combination of partnership working, additional freedoms from central government (particularly in use of funding), and use of the LPSA Performance Reward Grant and pump priming grant. Successful delivery of stretch LPSA targets within the Local Area Agreement will generate further Performance Reward Grant in 2009/10.

### Member decisions on the Local Area Agreement and use of Performance Reward Grant

- 5.18 There is still uncertainty about the amount of Performance Reward Grant the council will receive. In addition, outcomes and targets within the Local Area Agreement have not yet been signed off. Members are therefore asked to agree that there will be a report back to the Executive on proposed use of Performance Reward Grant and pump priming grant to enable delivery of the Local Area Agreement. In the meantime, neither the grant itself, nor spending associated with its use, are included within the budget estimates.

## Savings within 2006/07 Service Area Budgets

- 5.19 Proposed savings within service area budgets are included in Appendix D(ii). Savings were reported and agreed at the Executive on 12<sup>th</sup> December 2005 in order to enable departments to start delivering them, with some further amendments agreed at the Executive on 13<sup>th</sup> February 2006. Total savings set out in Appendix D(ii) are £4.224m<sup>1</sup> compared to £4.217m set out in the First Reading debate papers and the report on Service Development Plans to the Executive on 12<sup>th</sup> December 2005.

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<sup>1</sup> This includes £80k of savings for E-government which are outside service area budgets and not included in Table 5.1

### Member decisions on savings

- 5.20 Members are asked to confirm the decisions on savings made by the Executive on 12<sup>th</sup> December 2005, as amended at the Executive meeting on 13<sup>th</sup> February 2006.

### **Other Adjustments in 2006/07 Service Area Budgets**

- 5.21 Other adjustments to the budgets shown in Table 5.1 above are listed in Appendix D(iii). These cover:
- Transfers into service area budgets from central items;
  - Transfers between and within service areas; and
  - Adjustments for changes to reflect transfer of specific grants into formula grant funding.

### Member decisions on other adjustments

- 5.22 Members are asked to agree the other adjustments detailed in Appendix D(iii).

### **The Efficiency Programme**

- 5.23 The Executive received a report on progress on the Efficiency Programme at its meeting on 14<sup>th</sup> November 2005. Some of the projects will start to deliver in 2006/07 although a number are longer term.
- 5.24 Savings included in Appendix D(ii) include efficiency gains from projects in the Efficiency Programme. For example, savings in both Children and Families and Housing and Community Care include a £100k from reduction in agency worker costs as a result of the proposed vendor management service for agency workers (agreed by the Executive on 14<sup>th</sup> November 2005). In addition, other efficiency savings – for example, the review of human resources administration across the council – are required to fund developments of the service (report on Brent People Management Strategy to the Executive on 12<sup>th</sup> December 2005).
- 5.25 There will be additional savings however from projects included within the Efficiency Programme. At this stage it is considered prudent to include target net central efficiency savings of £500k (£590k less repayment of 'spend to save' funds of £90k) in 2006/07, with further savings of £500k in each subsequent year. Details are set out in Table 5.2.

**Table 5.2 2006/07 Efficiency Programme Savings**

Item	Savings £'000s
Agency arrangements – in addition to savings already included within cash limits	200
IT procurement	100
Insurance	100
Cash flow on VAT	50
Other <sup>2</sup>	140
<b>Total Efficiency Programme savings - gross</b>	<b>590</b>
Less: Repayment of 'spend to save' funds	(90)
<b>Total Efficiency Programme savings - net</b>	<b>500</b>

Member decisions on the Efficiency Programme

- 5.26 Members are asked to agree savings from the Efficiency Programme to be included in the 2006/07 budget of £500k (net of repayment of £90k 'spend to save' funds), on top of efficiency savings included within service area budgets.

**Central Items**

- 5.27 Table 5.3 sets out budgeted amounts for central items. Details are provided in Appendix F.

**Table 5.3 2006/07 Budget for Central Items**

	2005/06 £'000	2006/07 £'000
Agencies/Third Parties (further breakdown in Appendix F)	1,047	1,317
Debt Charges/Net Interest Receipts	19,349	18,155
Prudential Regime Financing Charges	1,907	2,602
Asylum Seekers	250	250
Remuneration Strategy	427	500
South Kilburn Development	250	500
Investment in IT	900	820
Levies	6,755	7,700
Premature Retirement Compensation	4,200	4,170
Middlesex House/Lancelot Road	360	392
Other Items (further breakdown in Appendix F)	118	2,012
Local Authority Business Growth Incentive Scheme	-	(1,000)
<b>TOTAL</b>	<b>35,563</b>	<b>37,418</b>

<sup>2</sup> 'Other' includes other savings from better procurement (eg from e-auctions), the review of security contracts, and the review of storage.

- 5.28 Members should note that the debt charges and prudential regime charges are subject to Members agreeing the capital programme as set out in section 10. If the amount of borrowing required to fund the capital programme changes, these figures will change too.

#### Proposed Growth

- 5.29 Two items relating to the Freedom of Information and Environment Information Act and health and safety have yet to be allocated to service areas while a decision on the most appropriate location is made. These amount in total to £150k. Further details are in Appendix D(i)(b).

#### Local Authority Business Growth Incentive Scheme

- 5.30 Details of the scheme are set out in Section 4 paragraph 4.12(b). The council estimates a £1m payment in 2006/07.

#### Member decisions on Central Items

- 5.31 Members are asked to agree these revised amounts for central items, subject to the level of borrowing in Section 10 being agreed.

### **Risks**

- 5.32 It is important that as part of the budget an assessment is made of potential risks. This helps the council set an appropriate level of balances and also ensures that risks can be monitored and managed effectively during the year.

- 5.33 The overall budget risks 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, the council not meeting grant conditions, or uncertainty about the amount that will be allocated;
- 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.

5.34 The council has in previous years had to manage significant overspends in particular areas: in 2002/03 in social care, in 2003/04 in Special Education Needs, in 2004/05 in the parking control account, and in the current year in adult services. The council has learnt from these experiences and in each case put in place measures to reduce the overspend and bring overall spending within budget. But, however good the control measures and sophisticated the forecasting of demand, there remain risks that the council cannot control. Demand can change for reasons that the council has no control over; predicting with accuracy the financial impact of new legislative requirements is not possible; forecasting market conditions that affect interest rates and major procurement is also fraught with uncertainty. Other unforeseen events, such as a major emergency, are by their nature impossible to predict.

5.35 In assessing the growth requirements for 2006/07, officers have made their best estimate of the impact of those events we can reasonably predict. However, the council has finite resources and we have not therefore been able to allow for all possible eventualities. As a result there are risks within the budget which need to be monitored and managed at both a service area and corporate level.

5.36 As part of development of the budget proposals, officers have identified the main risks we consider could impact on the budget. These are set out in Table 5.4 below, together with the estimated cost of the worst case scenario, the likelihood of the worst case scenario happening, and therefore the estimated cost of risk in 2006/07. The major spending risks identified in 2006/2007 are as follows:



**Table 5.4 Major 2006/07 Spending Risks**

	<b>Worst case £'000</b>	<b>Likeli- hood %</b>	<b>Estimated risk £'000</b>
<b><u>Demand risks</u></b>			
Adult care packages	1,000	30%	300
Children's care packages	1,000	30%	300
Cost of accommodating looked after children (including asylum seekers beyond the age of 18)	1,000	25%	250
Temporary accommodation – increase in homelessness	600	30%	180
<b><u>New legislation</u></b>			
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	1,000	20%	200
<b><u>Legal challenge</u></b>			
Legal challenges – eg to contracts and in employment tribunals	2,000	30%	600
<b><u>Partnerships</u></b>			
Transfer of costs from the tPCT to the council	2,000	30%	600
<b><u>Interest rate fluctuations</u></b>			
Risk of major turbulence on markets	500	10%	50
<b><u>Procurement risks</u></b>			
Risk of additional costs from major re-tendering exercises eg waste management contract	1,000	20%	200
Risk that legal and financial costs of affordable housing PFI cannot be recovered	350	20%	70
Risk that cost of social care placements may increase by more than the inflation increase allowed for in both the children's and adults' budgets	1,000	20%	200
Energy risk – risk of increases in energy prices which cannot be contained in budgets	200	25%	50
<b><u>Pay risks</u></b>			
Risk that additional costs will, be incurred above those budgeted for single status	1,000	20%	200
<b><u>Grant risks</u></b>			
Risk of exceeding the threshold on housing benefit overpayments in 2006/07	600	30%	180
Risk of changes to the subsidy regime for people in temporary accommodation	1,500	30%	450
Risk the council does not receive the full LPSA Performance Reward Grant	5,000	10%	500

<b><u>Savings/income risks</u></b>			
Risk of not achieving savings in the budget	4,000	10%	400
Risk of not achieving central savings from the Efficiency Programme	500	20%	100
Parking control account – risk of under-recovery of income	500	30%	150
Planning/land search fees	500	20%	100
Gordon Brown centre – income risk	40	25%	10
<b><u>Asset management risks</u></b>			
Closure of council buildings and need to find alternative accommodation	1,000	30%	300
<b><u>Risks from major developments</u></b>			
Wembley opening – unanticipated costs incurred by the council	500	20%	100
<b><u>Major disaster</u></b>			
The government has a scheme (the Bellwin scheme) that covers authorities for 85% of costs of a major disaster above 0.2% of net revenue budget. The risk to the council is 100% of costs below the threshold and the 15% above it.	500	10%	50
<b>Total General Fund revenue risks</b>	<b>27,290</b>		<b>5,540</b>
<b><u>Major capital schemes</u></b>			
Risk that major schemes in the agreed capital programme will overspend	4,000	20%	800
<b>Total General Fund revenue and capital risks</b>	<b>31,290</b>		<b>6,340</b>

## Balances

- 5.37 As set out in Section 4, the council's General Fund usable balances are forecast to be £7.722m at the end of 2005/06.
- 5.38 Councils need balances so that they can deal with unforeseen calls on resources without disrupting service delivery. The level of risk that a council assesses it faces is therefore the minimum level at which balances should be maintained.
- 5.39 But balances also contribute to effective medium term financial planning for councils. They allow councils to adjust to changes in resources and spending requirements over a period of time (see section 7 below for the medium term forecast for Brent), to plan council tax rises to avoid excessive increases in any one year, and to take a more flexible approach to the annual budget cycle, for example through “*spend to save*” schemes. They also allow councils to respond to new demands/priorities for spending which arise during the year.

- 5.40 Balances also have to be used carefully. They can be used only once. Decisions to use balances to fund on-going spending or hold down council tax increases can only apply for one year. In the following year, either additional budget reductions have to be made or additional council tax increases are required. There is a significant risk of future financial instability if significant levels of balances are used to fund on-going spending or reductions in council tax. This is particularly the case when the government has made it clear that they intend to retain a tough council tax capping regime, which will limit council tax rises in future years to pay for one-off use of balances.
- 5.41 Under the 2003 Local Government Act, the Director of Finance and Corporate Resources, as chief finance officer, has to be satisfied that the level of available General Fund balances is adequate. 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.
- 5.42 Table 5.5 below presents the proposals from the Administration on balances in 2006/07.

**Table 5.5 Proposed General Fund Balances in 2006/07**

	<b>£'000</b>
<b>Total Estimated Balances at 31<sup>st</sup> March 2006</b>	<b>7,722</b>
Repayment of 'spend to save' funds from efficiency savings	90
<b>Estimated Balances at 31<sup>st</sup> March 2007</b>	<b>7,812</b>

**Member decisions on balances**

- 5.43 Members have to decide the contribution they wish to make to or take from balances in 2006/07 to support the General Fund revenue budget. In doing so they need to consider the advice on the factors to take into account in paragraph 5.38.

## Overall Budget Requirement

- 5.44 The overall budget requirement in 2006/07 resulting from the proposals in this section is £235.513m. The make up of this budget requirement is summarised in Table 5.6 (details in Appendix B).

**Table 5.6 General Fund Budget Requirement in 2006/07**

	£'000
Service area budgets – Table 5.1	198,445
Gross Efficiency Programme savings – Table 5.2	(590)
Central items – Table 5.3	37,418
Growth Outside Service Areas – paragraph 5.29	150
Repayment of 'spend to save' funds – Table 5.5	90
<b>Proposed budget requirement for 2006/2007</b>	<b>235,513</b>

### Statement by the Director of Finance and Corporate Resources on the budget and balances

- 5.45 Under Section 25 of the 2003 Local Government Act, the chief finance officer is required 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 taken. Risks have been identified and quantified. The council also has rigorous budget monitoring arrangements during the year and a policy of restoring balances once used. The combined approach means that a minimum prudent level of balances is £5.5m, in line with the General Fund revenue budget risks identified. The Director of Finance and Corporate Resources' view is however that an optimal level of balances to cover risks and allow effective financial planning, which will contribute to longer term financial stability, is £7.5m to £8m. This is higher than the £7m set last year and reflects both additional budget pressures, particularly on the adult services budget, and the views of 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. The Director of Finance and Corporate Resources also advises that as a general rule use of balances should only be to cover one-off expenditure. Any decision to use balances to fund on-going spending or council tax reductions needs to set out the measures that will be taken to make up the short-fall in future years.

## Member decisions on the overall budget

5.46 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, based on the budget in Appendix B, is as follows:

	<b>£m</b>
(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.	827.776
(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.	(592.263)
(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.	235.513

5.47 The council is no longer constrained by a pre-set capping limit, but the government have indicated that excessive increases will be capped. Further details are provided in Section 6.

5.48 The context in which Members are setting the budget for 2006/07 is tighter financially than in 2005/06 because of the impact of reduced growth in external funding in 2006/07 and subsequent years. However, the council's financial stability, which has been recognised by PWC and the Audit Commission in the annual Use of Resources judgement and the Annual Audit and Inspection Letter, means that the council is well placed to continue to deliver improvements in services within a stable financial environment.

5.49 Members have a wide range of options available to them:

- (a) they could increase the budget and level of council tax to invest in service priorities subject to the information on capping;
- (b) they could agree the budget as set out in the report;
- (c) they could agree reduced growth, further savings (provided they are satisfied that they can be achieved), or a lower level of balances (subject to the Director of Finance and Corporate Resources' advice on balances) in order to reduce council tax.

5.50 Table 5.6 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 precept of £288.61 in 2006/07.

**Table 5.6 Impact of Changes to Budget Requirement on Council Tax**

	<b>Current Position</b>	<b>Expenditure - £1m</b>	<b>Expenditure + £1m</b>
Brent's budget requirement ( £m)	235.513	234.513	236.513
Council Tax Band D        £	950.13	939.50	960.76
GLA precept                £	288.61	288.61	288.61
Total Council Tax Band D   £	1,238.74	1,228.11	1,249.37

5.51 The table illustrates that each £1m fall or rise in expenditure decreases or increases the council tax increase by £10.63 (1.1%) at Band D for the Brent element of the tax.