SECTION 5

5. THE 2007/08 REVENUE BUDGET REQUIREMENT

Introduction

5.1 This section details the proposals for the 2007/08 revenue budget.

5.2 The strategic context for the budget proposals for 2007/08 was set out in Section 3 on the budget process. The budget proposals in this Section are intended to form the basis for delivering priorities within the Corporate Strategy. They are the first year of a Medium Term Financial Strategy aimed at delivering priorities within the Corporate Strategy over the next four years and contributing to continuing financial stability over the longer term.

5.3 The priorities set out in the Corporate Strategy are aimed at making Brent:

- a great place – a safe place, a clean place, a green place, and a lively place;
- a borough of opportunity – local employment and enterprise, health and well-being, help when people need it;
- one community – settled homes, early excellence, civic leadership, community engagement, and building capacity.

5.4 In the First Reading Debate, the Leader of the Council set out the key priorities of the administration for 2007/08 as follows:

- A step change in the council's approach to the Green Agenda;
- Putting the needs of the borough's children at the top of the administration's priorities;
- Being clear that the supply and affordability of housing are key issues in the lives of residents;
- Driving forward regeneration programmes;
- Bringing forward a package of measures which address the public's concern about crime;
- Providing the best social care whilst ensuring effective use of resources to do so;
- Bringing forward an ambitious programme of *invest to save* measures.

5.5 These priorities are not only delivered through the revenue budget but also through the capital programme, the Dedicated Schools Budget, the Housing Revenue Account, regeneration funding available from external sources, and contributions by partners. Appendix J sets out the ways in which the proposals in this budget, together with other activities, are aimed at delivering these priorities over the next 12 months.

5.6 In order to deliver corporate and service priorities, the budget needs to be robust and sustainable. And Members also need to balance the interests of service users and tax-payers. So, Members need to consider:

- The balance between spending and council tax;
- 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, the delivery of Corporate Strategy priorities over a four year period, and the likely availability of resources.

5.7 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. 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 2007/08 of £7.5m 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.

5.8 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.

5.9 The budget requirement that results from the proposals in this section is £242.9m (see Appendix B). After allowing for Brent's share of the deficit in the Collection Fund of £1.151m, this would produce a Council Tax at Band D for Brent services of £995.58, which is 4.8% above the 2006/07 level of £950.13. Details of the council tax calculation, and the GLA precept, are given in Section 6 below.

2007/08 Service Area Budgets

5.10 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 the Corporate Strategy and service planning, has been set out in Section 3 above.

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). Key changes since the First Reading Debate papers are as follows:

- Inflation allowed for within service area budgets has reduced by £0.568m compared to the First Reading Debate papers because of the decision to allow 2.5% for pay awards rather than the previously assumed 3%;
- Service priority growth has been spread over 4 years and some of the items have been included within *invest to save* (see below). Allowance has also been made for the fact that new schemes will not all deliver from 1st April 2007. As a result total priority growth within the budget in 2007/08 is £2.987m, compared to £12.974m included in the First Reading Debate papers. The full year effect of priority growth included for a part-year in 2007/08 has been allowed for in service area budgets in future years. Other priority growth not funded in 2007/08 has been included in the Medium Term Financial Strategy in Section 7 but is not at present allocated within service area budgets for future years;
- Provision for budget pressures, including demand led growth, contractual price increases, and loss of income, has reduced from £10.896m in the First Reading Debate papers to £7.266m now, following detailed review of the requirements and separate identification of costs resulting from PCT transfers;
- A total of £4.347m (£4.097m in adult social care and £250k in children and families) has been included as a contingency for PCT transfer costs. The council is disputing the cost transfers and there is also delay in the PCT implementing their cuts programme. Inclusion of the contingency does not represent acceptance that costs of £4.347m will be met by the council. The level of contingency is however significantly less than the total estimated cost of PCT cuts to the council of about £11.038m and there is a significant risk that the transfer could be higher than £4.347m and this is taken into account in the assessment of risk in paragraphs 5.21 to 5.28 below. Even if the cost of transfers is contained within the £4.347m contingency, there will be pressure in future years for the PCT to transfer more costs to the council and therefore, at this stage, a contingency has been included within the Medium Term Financial Strategy for the full additional costs of £11.038m to transfer from the PCT to the council over the next three years. This is one of the significant factors contributing to the assessment of the budget gap in future years (see Section 7);

- A total of £9.880m has been included as savings within service area budgets. This consists of the £4.412m of savings for 2007/08 agreed at the Executive on 13th September 2006, a further £2.893m of savings from the £3.418m additional savings included in the First Reading Debate papers, and a further £2.575m of savings identified subsequently. Out of the total £9.880m savings identified within service area budgets, £750k are one-off and have been added back to service area budgets in future years.
- Other adjustments included in service area budgets in 2007/08 are £1.402m. These include:
  - Increases in Pension Fund contributions;
  - 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.

5.12 A total of £1.144m has been added to service area budgets for *invest to save* items. These items are funded from one-off income sources (see paragraph 5.13 below). Adjustments have been made to service area budgets in future years to reflect repayment of these funds. The following *invest to save* items are included in the 2007/08 budget proposals:

- Children's social care: A net £809k (£2.074m growth less £1.265m savings) in 2007/08, with £566k being repaid in 2008/09 and a further £243k being repaid in 2009/10. The spending is focused on measures to: help prevent children coming into care; increase availability of foster carers; and reduce the cost of placements. This additional funding is on condition that future year budgets will be contained within the amounts allocated to children's social care in 2007/08; it is also proposed, however, that in view of the need to pay back *invest to save* funds in 2008/09, children's social care will be exempted from also having to find 2% efficiency savings in 2008/09. From 2009/10 projected savings are forecast to exceed the amount that needs to be repaid and therefore the children's social care contribution to corporate savings will be reviewed in that year;
- Customer care strategy: A net £182k (£195k growth less £13k savings) in 2007/08, and a further £108k (£238k growth less £130k savings) in 2008/09, with £275k being repaid in 2009/10 and the balance of £15k being repaid in 2010/11. The proposals include capital investment of £549k in 2007/08 and £247k in 2008/09, which is on a self-funded basis and involves repayment over a 7 year period. Details were included in the report on the customer care strategy to the Executive on 12th February 2007. As with children's social care, it is proposed that the One Stop Shop is exempted from contributing to corporate savings until projected savings from the customer care strategy exceed the amount needed to repay the *invest to save* monies;
- IT strategy: A net £120k (£258k growth less £138k savings) in 2007/08, and a further £16k (£100k growth net £84k savings) in 2008/09, with

£84k being repaid in 2009/10 and the balance of £52k being repaid in 2007/08. The funding is being used for rationalisation of servers, replacement of Lotus Notes by Microsoft Exchange, improvements to file sharing and security, convergence of the telephone and computer networks, up-grading and extension of the Automated Call Distribution system, and implementation of Electronic Data Management as part of wider business transformation. The proposals include capital investment of £1.210m in 2007/08, which is on a self-funded basis and involves repayment over a 5 year period. The proposals are part of the overall IT strategy, agreed by the Executive on 15th January 2007;

- New Human Resources and Payroll system: A net £33k in 2007/08 which will be repaid in 2008/09. The funding is needed to meet the first year repayments of capital financing charges associated with implementation of the new system. The capital investment is £283k (for implementation costs of £121k incurred by Logica, the contractor, and £162k incurred by the council), which is on a self-funded basis and involves repayment over a 5 year period, with first year costs being £33k and subsequent full year costs being £65k. Savings to repay first year and fund on-going capital financing costs will be achieved from lower annual costs of the new system and automation of processes once the new system is implemented. These savings are on top of the £102k included in the 2007/08 savings proposals as a result of implementation of the new system. Implementation of the new system is part of the overall People Management Strategy agreed by the Executive in December 2005, which is aimed at strengthening strategic support for Human Resources management whilst streamlining transactional processes.

Levels of saving in each case will exceed the amount of investment and will deliver further savings in future years which will help address budget gaps in future years identified in the Medium Term Financial Strategy in Section 7. Detailed return on investment analyses are being carried out on each of these proposals to be used to monitor achievement of the savings.

5.13 Funding of the *invest to save* schemes comes from the following sources:

- *Local Authority Business Growth Incentive (LABGI) funds:*

  The LABGI scheme, which was introduced in 2005/06 for a period of three years, involves local authorities receiving one-off payments as a result of growth of business rate income above a specified threshold. The council's previous Medium Term Financial Strategy included £1.5m income in 2007/08 from LABGI. The opening of Wembley stadium, which will have a high rateable value, will significantly increase this sum, and officers estimate that a minimum of £2.750m will be received in 2007/08.[1] The future of LABGI will be determined following the summer Comprehensive Spending review but it is unlikely that the council will

[1] Members should note that there is a national cash limited sum which means that the amount any one authority receives is uncertain. However, there is a significant sum of money to be distributed nationally in 2007/08 and £2.750m is considered a prudent estimate of Brent's share of this.

receive more than the £1.5m allowed in future years in the Medium Term Financial Strategy either from LABGI or its replacement. Therefore, officers' advice is that the additional £1.250m forecast for 2007/08 is used on a one-off basis for *invest to save* schemes;

- *Local Public Service Agreement (LPSA) reward grant:*

  The LPSA scheme rewards councils for achieving stretch targets agreed with regional government offices. The council met 71% of the stretch targets in its 2003-2006 LPSA which entitled it to £5.134m LPSA reward grant (split equally between revenue and capital) which, once confirmed, will be paid in two tranches in 2006/07 and 2007/08. In addition, the council has received £1.017m pump priming grant for stretch targets up to 2008/09 included in the Local Area Agreement which, if achieved, will entitle the council to further reward grant in 2009/10 and 2010/11. Total funding available to the council is therefore £6.151m. A total of £3.743m of this has already been allocated to help deliver priorities within the Local Area Agreement, including the stretch targets. The progress report on the Local Area Agreement to the Executive on 11th December 2006 reported four areas identified by partners as needing additional development work in 2007-08 – longer, healthier lives focused on promoting health life styles; extension of the early intervention programme piloted in Stonebridge; initiatives to promote long-term independence of older people; and development of effective communications networks in the voluntary and community sector. It is proposed that a total of £295k is set aside to fund these priorities, as follows:

  - Promotion of healthier life-styles jointly by the council and the PCT - £30k;
  - £200k to fund two posts over two years, extending the early intervention cross-agency approach developed in Stonebridge to other parts of the borough – as part of the wider investment in preventative measures as part of the *invest to save* allocation to children's services;
  - supplementing the POPP programme (government funded scheme to help prevent older people going into care) with £30k of LPSA funds to help improve the quality for older people;
  - allocating £35k to improve inter-agency communication within the voluntary and community sector.

  This would leave a total of £2.113m[2] LPSA reward grant (capital) to be allocated to *invest to save* schemes which support achievement of the priorities within the LAA, including prevention of children coming into care and delivery of the efficiency target within the Local Area Agreement.

[2] The £2.113m remaining is the £6.151m reward and pump priming grant less £3.743m already allocated and the further £295k it is proposed to allocate to priorities for additional development work.

5.14 The combination of the additional one-off LABGI revenue funds of £1.250m, the unallocated LPSA reward grant capital funds of £2.113m, and repayment of capital financing costs of £268k in 2007/08 is sufficient to fund the up-front revenue and capital *invest to save* costs set out in paragraph 5.12. Because both the capital and revenue costs are fully funded, capital and revenue repayments in subsequent years can be used to fund a rolling reserve for further *invest to save* schemes.

5.15 Proposals are currently being developed for further *invest to save* schemes for adult care services and rationalisation of financial transactions as part of implementation of a unified financial system. Officers will be reviewing options to fund one-off investment in these areas subject to a business case being made on how the funds will be repaid.

5.16 Table 5.1 below summarises the changes in budget at service area level between 2006/07 and 2007/08.

Table 5.1 Service Area Budgets

	2006/07 Revised Budget £'000	Inflation £'000	Service priority growth £'000	Budget press's (inc PCT) £'000	Savings £'000	Invest to save £'000	2007/08 Budget before technical ad'jts £'000	Growth 2006/07 - 2007/08 %	Technical Adj'ts £'000	2007/08 Budget £'000
Corporate	20,391	479	0	27	(2,590)	153	18,460	-9.5	3,204	21,664
Children and Families	44,538	969	125	4,715	(1,246)	809	49,910	12.1	(1,008)	48,902
Environment and Culture	45,215	1,098	2,510	1,005	(2,476)	0	47,352	4.7	(423)	46,929
Housing and Community Care:										
- Housing and Customer Services	18,172	314	35	58	(722)	182	18,039	-0.7	(152)	17,887
- Adult Social Care	70,601	1,402	317	5,808	(2,846)	0	75,282	6.6	(219)	75,063
Total	**198,917**	**4,262**	**2,987**	**11,613**	**(9,880)**	**1,144**	**209,043**	**5.1**	**1,402**	**210,445**

Contingencies for budget pressures resulting from PCT transfers are as follows: Children and Families - £250k; Adult Social Care - £4.097m

Member decisions on service area budgets

5.17 Members are asked to agree the service area budgets set out in Table 5.1 above and detailed in Appendix C.

Central Items

5.18 Table 5.2 sets out budgeted amounts for central items.

Table 5.2 2007/08 Budget for Central Items

	2006/07 forecast outturn £'000	2007/08 budget £'000
Agencies/Third Parties (further breakdown in Table 2 in Appendix F)	1,237	1,153
Debt Charges/Net Interest Receipts	15,554	16,056
Prudential Regime Financing Charges	2,243	3,034
Levies	6,193	6,583
Premature Retirement Compensation	4,120	4,270
Middlesex House/Lancelot Road	392	422
Remuneration Strategy	418	2,500
South Kilburn Development	200	500
Investment in IT	820	820
Neighbourhood Renewal	(2,279)	(2,279)
Insurance Fund	1,800	1,800
Civic Facility/Property Repairs and Maintenance	1,150	1,251
Ward Working	200	500
Local Authority Business Growth Incentive Scheme	(500)	(2,750)
Parking income – court case	1,065	-
Tornado damage	200	-
Freedom Pass Scheme growth – base budget is in Adult Social Care	-	440
Affordable Housing Private Finance Initiative scheme	-	254
Corporate efficiency savings	(540)	(1,000)
Other Items (further breakdown in Table 3 in Appendix F)	258	515
TOTAL	**32,531**	**34,069**

5.19 A summary of what each of the items covers is provided below, with fuller details in Appendix F.

- *Agencies/third parties*: These cover payments to the coroners' courts, the cost of copy-right licences, external audit fees, corporate insurance policies, and subscriptions to the Local Government Association, London Councils (formerly the Association of London Government), the Local Government Information Unit, West London Alliance, and park Royal Partnership;
- *Debt Charges/Net Interest Receipts/Prudential Regime Financial Charges:* These items cover the cost of past and new borrowing to fund the council's capital programme – interest and capital repayments – and interest received on council investments. The amounts provided are closely linked to the Treasury Management Strategy in Section 11 and

the proposed capital programme in Section 10. The total provided in 2007/08 has been reduced from previous forecasts to take account of debt restructuring and other changes in 2006/07 (see Section 4). Allowance has been made for potential movement in interest rates. Provision for prudential regime charges has been amended to reflect levels of prudential borrowing recommended in Section 10 and in particular the proposal to transfer the budget for capital charges for the affordable housing capital programme to fund the council's contribution to the affordable housing PFI (see below). 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;

- *Levies:* These cover the cost to the council of levies from the West London Waste Authority, Lee Valley Regional Park Authority, London Pension Funds Authority, and the Environment Agency;
- *Premature retirement compensation:* This covers the on-going cost to the council of premature retirements up to 1994. Since 1st April 2004, costs of early retirements have been charged to service area budgets.
- *Middlesex House/Lancelot Road:* This covers the cost of the funding arrangement for this scheme. Payments continue to 2019/20.
- *Remuneration strategy:* The council faces a range of significant challenges in its approach to pay for staff. These include implementing single status agreement from 1st April 2007, resolving a range of pay anomalies including London Weighting, a number of supplements and bonus payments, and putting in place adequate arrangements to ensure recruitment and retention of suitably skilled staff.
- *South Kilburn development:* Funding in 2007/08 is required to meet decant costs to move residents to Granville New Homes as well as legal and other costs;
- *Investment in information technology:* This is used to meet debt charges and maintenance costs of previous IT developments, together with a small amount of new development;
- *Neighbourhood Renewal:* This is funding provided by government to reduce gaps between the borough's most deprived neighbourhoods and the rest of the country. 2007/08 is the last year of the grant and no announcement has been made about its replacement. Decisions on how the funding is used are taken by the Local Strategic Partnership;
- *Insurance Fund:* This is to fund the cost of claims for buildings, contents, employees, professional indemnity and third party up to £290k on any individual claim and up to a maximum exposure of £3.480m in any financial year. The council has insurance policies to limit its exposure above these amounts;
- *Civic facility/property repairs and maintenance:* This is to fund the cost of professional advisors supporting more detailed feasibility work on the proposed civic centre following the report to the Executive in December

2006, and an allocation to maintaining the existing building stock pending a final decision on the civic centre;

- *Ward working:* Funding of £500k in 2007/08 and £1.040m from 2008/09 has been provided pending the outcome of the Constitutional Working Group review;
- *Local Authority Business Growth Incentive Scheme:* Details are provided above in paragraph 5.13 and in Appendix F;
- *Parking income loss/tornado damage:* These were one-off costs in 2006/07;
- *Freedom Pass:* The Freedom Pass provides off peak travel with on London Transport buses and underground for all residents aged 60 or over or with disabilities. There were 38,460 users in Brent in September 2006. Funding in central items of £440k in 2007/08 – and more in subsequent years – is for growth in the budget above inflation. The total cost of the scheme to Brent in 2007/08 is £8.310m, the bulk of which is included in the Adult Social Care budget;
- *Affordable Housing PFI:* The council is in the process of finalising negotiations on the PFI with the preferred bidder, Brent Co-Efficient. The scheme will provide up to 250 affordable housing units, up to 200 temporary units, and up to 50 units for people with learning disabilities, including replacement accommodation for Melrose House residents. The actual number of units will depend on affordability within budgeted amounts. When the scheme was originally agreed, funding for the council's contribution was planned to come from reductions in the bed and breakfast budget. However, since then the council has successfully reduced costs of bed and breakfast and taken funds out of its budget. This means alternative funding is needed to enable the council to fund the PFI schemes. The capital programme in Section 10 includes a proposal to remove funding for new housing units from the capital programme and use the resulting savings in prudential financing charges to fund the council's contribution to the PFI. Funding for this in central items therefore represents a transfer from prudential borrowing charges;
- *Corporate efficiency savings:* Details of the corporate efficiency programme, including these savings, are provided in Section 13 on Value for Money. £700k of the £1m savings have been already been identified. £550k of this £700k is already being delivered through actions taken in 2006/07 including the Vendor Managed Service for agency staff, reductions in personal computer costs, insurance savings and improvements in cash flow on VAT payments to Her Majesty's Revenues and Customs (HMRC). A further £150k comes as a result of the proposed change to the schedule for direct debit payments for council tax from 12 monthly payments to 10 monthly payments, in line with most other authorities, as set out in Appendix H(ii). The balance will be met from projects being progressed as part of the corporate Efficiency Programme;
- *Other items:* These are detailed in Table 3 in Appendix F. They included a budgeted saving of £50k in 2007/08 and subsequent years

from a review of the council's publications, with a view to reducing the number and printing less hard copies. They also include an increase in the target income from advertising hoardings/sponsorship from the current £8k included in central items to £48k. Both these savings items will be allocated within service area budgets during the year.

Member decisions on Central Items

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

Risks

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

5.22 The single largest risk for the council in 2007/08 is the impact of cost transfers from the PCT. Officers reported to the Executive on 11th December 2006 on the impact of PCT cuts, estimated at that time at £9.040m. This figure has now increased to £11.038m principally as a result of an increase in the estimated impact of transfer of non-dowry cases (learning disability clients who were previously in long stay hospitals who have continued to be funded by the health sector since moving into other settings). A further report on the PCT situation was provided to the Executive on 12th February 2007.

5.23 There is still considerable uncertainty about any PCT actions on the council's budget because:

- Implementation plans/timetables are not available;
- The council will be challenging costs transferred to it from the PCT;
- The council will need to review packages for clients transferred from health.

5.24 The council needs to take a risk based approach to the impact of PCT changes, which is estimated at a potential £11.038m. Whilst the council is disputing the transfer of costs, a contingency of £4.347m has been provided within 2007/08 budget estimates for costs which are considered most likely to transfer to the council. Others are less likely – although there is still a chance that they will transfer – and it is proposed to treat these as risk within the budget rather than create a specific contingency. That leaves £6.691m of potential transfers which the contingency would not be able to cover and which have been included in the risk assessment.

5.25 There are other risks associated with unexpected increases in demand for services, new legislation etc which also have to be allowed for in the budget. These 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 there is some uncertainty about impact on council costs although the main pieces of new legislation affecting council services – the Health Act, the Equality Act, the Electoral Administration Act, the Compensation Act, the Childcare Act, and the Children and Adoption Act – are unlikely to have significant unforeseen financial consequences in 2007/08;
- risks from legal challenges;
- partnership risks, with the principal one being health in 2007/08;
- 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 – the affordable housing PFI scheme, the procurement of residential placements for children and adults, and the energy market;
- pay risks related to the annual pay award which has not yet been agreed and the impact of 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. These are higher than previous years because savings are higher. There is a particular risk associated with the proposed reconfiguration of adult care services which will yield savings in the future but about which there is some uncertainty in 2007/08;
- asset management risks if corporate or service buildings have to be closed because of current condition;
- risks from natural disasters or terrorist attacks;
- capital programme risks (see Section 10)

5.26 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, in 2005/06 in adult care; and in 2006/07 in children's services and adult care. 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 the tornado in Kensal Rise, are by their nature impossible to predict.

5.27 In assessing the growth requirements for 2007/08, 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. In particular, the council could not provide for the full potential impact of PCT transfers and achieve a balanced budget. As a result there are risks within the budget which need to be monitored and managed at both a service area and corporate level.

5.28 The main risks officers consider could impact on the budget are set out in Table 5.3 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 2007/08.

Table 5.3 Major 2007/08 Spending Risks

	Worst case £'000	Likeli-hood %	Estimated risk £'000
Demand risks			
Adult care packages	2,000	30%	600
Children's care packages	2,000	30%	600
Cost of accommodating looked after children (including asylum seekers beyond the age of 18)	500	25%	125
Temporary accommodation – increase in homelessness	600	30%	180
New legislation			
Health Act, the Equality Act, the Electoral Administration Act, the Compensation Act, the Childcare Act, and the Children and Adoption Act	200	20%	40
Legal challenge			
Legal challenges – e.g. to contracts and in employment tribunals	2,000	30%	600
Partnerships			
Transfer of costs from the tPCT to the council	6,700	25%	1,675
Interest rate fluctuations			
Risk of major turbulence on markets	500	10%	50
Procurement risks			
Affordable housing PFI	1,000	30%	300
Risk that cost of social care placements may increase by more than the inflation increase allowed	1,000	30%	300
Energy risk – risk of increases in energy prices which cannot be contained in budgets	200	25%	50

Pay risks			
Risk that increases in the annual pay award above the 2.5% provided within budgets cannot be contained	1,200	25%	300
Risk that additional costs will, be incurred above those budgeted for single status	1,000	20%	200
Grant risks			
Risk of exceeding the threshold on housing benefit overpayments in 2007/08	600	30%	180
Risk of amendments to housing benefit subsidy claim	1,500	20%	300
Risk of not achieving LABGI income at level budgeted for	1,250	20%	250
Savings/income risks			
Risk of not achieving full saving from reconfiguration of adult social care	1,000	30%	300
Risk of not achieving central savings from the Efficiency Programme	1,000	20%	200
Risk of not achieving other savings in the budget	9,000	10%	900
Asset management risks			
Closure of council buildings and need to find alternative accommodation	1,000	20%	200
Major disaster			
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	30%	150
Total General Fund revenue risks	**34,750**		**7,500**
Major capital schemes			
Risk that major schemes in the agreed capital programme will overspend	4,000	20%	800
Total Capital Risks	**4,000**		**800**

Balances

5.29 As set out in Section 4, the council's General Fund usable balances are forecast to be £9.124m at the end of 2006/07.

5.30 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.

5.31 Balances can 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 *invest to save* schemes. They also allow councils to respond to new demands/priorities for spending which arise during the year. This flexibility needs to be considered each year depending on the particular pressures facing the council and the outlook in the medium term.

5.32 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.

5.33 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 in 2007/08 should be £7.5m, 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, remains at £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.

5.34 Table 5.4 below presents the proposals from the Administration on balances in 2007/08.

Table 5.4 Proposed General Fund Balances in 2007/08

	£'000
Total Estimated Balances at 31st March 2007	9,124
Proposed use of balances to fund 2007/08 budget	(1,624)
Estimated Balances at 31st March 2008	7,500

Member decisions on balances

5.35 Members have to decide the contribution they wish to make to or take from balances in 2007/08 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 5.33.

Overall Budget Requirement

5.36 The overall budget requirement in 2007/08 resulting from the proposals in this section is £242.890m. The make up of this budget requirement is summarised in Table 5.5 (details in Appendix B).

Table 5.5 General Fund Budget Requirement in 2007/08

	£'000
Service area budgets – Table 5.1	210,445
Central items – Table 5.2	34,069
Use of balances – Table 5.4	(1,624)
Proposed budget requirement for 2007/2008	**242,890**

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

5.37 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 £7.5m, in line with the General Fund revenue budget risks identified. This is higher than in previous years because of the particular risks the council faces in relation to the PCT. The Director of Finance and Corporate Resources' view is that the optimal level of balances to cover risks and allow effective financial planning, which will contribute to longer term financial stability, remains at £7.5m to £8m. 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. In this year, because of the particular pressures the council faces and the betterment in the 2006/07 financial position, it is proposed to use £1.624m of balances, and the impact of this one-off use of balances has been taken into account in budget projections for future years in Section 7 below.

Member decisions on the overall budget

5.38 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:

		£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.	898.347
(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.	655.457
(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.	242.890

5.39 The council is not 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.

5.40 The context in which Members are setting the budget for 2007/08 has been made more difficult by pressure from PCT transfers and the floor increase in government grant. Moreover the prospects for future years, set out in detail in Section 7, are challenging both because of continuing budget pressures and the expectation of even tighter local government financial settlements. The council's financial stability has been recognised by PricewaterhouseCoopers, the council's appointed auditors, and the Audit Commission in the annual Use of Resources judgement. The pressures on the council's budget in 2007/08 and future years mean that this is going to be more difficult to sustain and the council will need to ensure the continuing effectiveness of its financial controls and a continuing commitment to delivering improvements in the cost effectiveness of services.

5.41 Members have a range of options available to them:

(a) they could increase the budget and council tax to the capping level to invest in service priorities or remove savings items;

(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.

Within each of those overall options, Members have a choice about the combination of growth and savings items they may wish to agree.

5.42 Table 5.5 below sets out the implications for council tax of an increase (up to the capping limit of 5%) or reduction in Brent's expenditure compared with the current budget. This incorporates the GLA precept of £303.88 in 2007/08 agreed at the Assembly meeting on 14th February 2007.

Table 5.5 Impact of Changes to Budget Requirement on Council Tax

	Current Position	Expenditure - £1m	Expenditure + £193k – up to capping limit
Brent's budget requirement (£m)	242.890	241.890	243.083
Council Tax Band D £	995.58	984.93	997.64
Proposed GLA precept £	303.88	303.88	303.88
Total Council Tax Band D £	1,299.46	1,288.81	1,301.52

5.43 The table illustrates that each £1m fall in expenditure decreases the council tax increase by £10.65 (1.1%) at Band D for the Brent element of the tax. The maximum increase in spending, which would take the council to the capping limit, is £193k. The increase in council tax if it were to be set at the capping limit of 5% would be £2.06 at Band D.