



Full Council
26th November 2007

**Report from the Director of
Finance and Corporate Resources**

For Action

Wards Affected:
All

First Reading Debate on the 2008/09 to 2011/12 Budget

1.0 Summary

- 1.1 This report, together with the separate report on this agenda on the priorities of the administration, meets the requirement in the Constitution (Standing Order 25(b)) that: 'The Executive shall present a report to Full Council setting out the financial position of the Council, financial forecasts for the following year and their expenditure priorities. There shall then be a debate on the issues raised in that report held in accordance with Standing Order 44 hereinafter called a "First Reading Debate".'
- 1.2 The record of the 'First Reading Debate' is sent to the Leader of the Council and the Chair of the Budget Panel in order to inform consultation by them on the budget. The role of the Budget Panel is to assist the budget process by providing detailed input during the Executive's development of its budget proposals. This will include scrutiny of the Executive's budget proposals prior to the Executive's recommendations on the budget being agreed at their meeting on 11th February 2008, as well as further consideration after the Executive's recommendations have been made. Final decisions on budget and council tax will be made at Full Council on 3rd March 2008.
- 1.3 The report has been written on the basis of the best information available to the council at this stage. The Comprehensive Spending Review has set out the funding that local government can expect over the next three years. For 2008/09 the expected national increase in funding for local authorities is 3.8% which means an increase of 1% in real terms over the assumed inflation rate of 2.75%; the increases for 2009/10 and 2010/11 are 2.8% and 2.6% respectively. We will be clearer about the funding for Brent once the provisional local government finance settlement is announced in late November or early December. There will also be significant changes in the treatment of specific grants which are expected to be announced as part of the settlement. In addition, there still remains uncertainty about PCT costs transferring to the council. The council provided £4.3m to cover these costs in

the 2007/08 budget, with a further £3.6m and £3.4m in the financial forecasts for 2008/09 and 2009/10 respectively. However, settlement has not yet been reached between the PCT and the council and therefore these figures are still our best estimates.

- 1.4 This report is structured as follows:
- Section 2 Recommendations
 - Section 3 Background to the 2008/09 to 2011/12 budget
 - Section 4 General Fund revenue budget issues in 2008/09
 - Section 5 Dedicated Schools Budget
 - Section 6 Housing Revenue Account
 - Section 7 The capital programme
 - Section 8 Timetable
 - Section 9 Financial implications
 - Section 10 Legal implications
 - Section 11 Diversity implications

2.0 Recommendations

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

3.0 Background to the 2007/08 to 2010/11 budget

- 3.1 The 2007/08 budget was agreed at Full Council on 5th March 2007. Key features of the budget agreed for 2007/08 were as follows:

- A General Fund budget requirement of £242.9m in 2007/08;
- A council tax increase for Brent services of 4.8% in 2007/08;
- An overall council tax increase, including the GLA precept, of 4.9%, leading to a Council Tax for Band D properties of £1,299.46 in 2007/08;
- Level of balances set at £7.5m for 2007/08, which was within the range of £7.5m to £8m recommended by the Director of Finance and Corporate Resources based on an assessment of financial risks and to enable effective medium term financial planning;
- Financial projections for future years based on the assumption that balances would remain within the £7.5m to £8m range, grant would increase by between 1% and 2.5% each year, and council tax increases would range between 0% and 5%.

- 3.2 Based on budget monitoring information up to the end of September 2007, the council is projected to have balances at 31st March 2008 of £6.6m, which is below the £7.5m target set in the 2007/08 budget, and represents a net overspend of £0.9m. This is made up of a combination of better than forecast outturn for 2006/07 and forecast under-spends on central items in 2007/08, which are more than offset by forecast over-spends in 2007/08 on adult and children's social care. Further details are in Appendix A.

- 3.3 The 3 year financial forecasts included in the 2007/08 budget report have formed the background for work on the 2007/08 to 2010/11 budget carried out over the past few months. This has focused on developing a sound basis for revised forecasts for the 2008/09 to 2010/11 budget (see Appendices B and C) by:
- Preparing detailed budget matrices for the next 3 years which build in pay and price inflation, first stage budget savings for 2008/09 agreed at the Executive on 8th October 2007, and assumed 3% efficiency savings for subsequent years;
 - Officers Identifying and quantifying:
 - o Budget pressures (Appendix D); and
 - o Savings from Income Generation (Appendix E);
 - Officers reviewing central items (Appendix F);
 - The administration reviewing the need for service priority growth.
- 3.4 The announcement of the comprehensive spending review (CSR) 2007 coincides with the new multi-year grant settlements for 2008/09 – 2010/11 which will be announced at the end of November or beginning of December. Although the government have consulted on various changes to the funding formulae, the council is still expected to be below the funding floor and will receive a guaranteed minimum increase in its funding. Given the constraints of the CSR we are assuming a ‘floor’ increase in formula grant increase of 1% each year, which is prudent. The council also faces budget pressures – ‘inescapable growth’ - which are set out in detail in Appendix D; these include demographic pressure particularly on adult care budgets, cost transfers from the PCT, increased costs of waste disposal, reductions in government funding for homelessness, and other unavoidable items. In addition there are additional costs associated with funding the capital programme and there is service growth to meet priorities within the Corporate Strategy. The combined effect of expected below inflation grant increases and budget growth pressures is a significant budget gap.
- 3.5 As part of the CSR, the government expects local authorities as a whole to deliver average efficiency savings of 3% each year. Because Brent’s funding is at the grant ‘floor’, which means a lower funding increase than average, savings necessary for the council to maintain services are greater than the 3% the government has assumed. Moreover, although the council has a good record of delivering efficiency savings and has an efficiency programme in place aimed at delivering further efficiency savings, there are limits to what can be achieved because of contractual commitments and costs that are outside the council’s control (eg levies, concessionary fares). Whilst we have targets for services to achieve cashable efficiency savings of 3% each year, in practice, because of constraints on the level of efficiencies that can be achieved and the fact that the council’s funding is increasing at less than the average rate, it is difficult to balance the budget without reducing services.

- 3.6 The government also confirmed in the CSR announcement that it would retain capping, with average council tax increases expected to be well under 5 per cent in each of the next three years. Capping rules will not be announced in advance of councils setting their budgets, but it is expected that, as in previous years, the government will consider capping any council that increases its council tax by more than 5%.

4.0 General Fund revenue budget issues for 2008/09

Budget gap

- 4.1 Appendix B shows that the current budget gap for 2008/09 is between £12.1m (to achieve a council tax increase of 5%) and £16.8m (to achieve a freeze in council tax), which is £800k above the budget gap reported to the Executive in July 2007¹. Appendix C provides further details of the main elements of the budget and how these impact on the budget gap. The main reasons that there has been no overall decrease in the budget gap despite the budget reductions of £5.5m agreed by the Executive on 8th October 2007 are that projected 'inescapable growth' for 2008/09 has increased from £6.5m in July to £11.1m now, the amount allowed for increases in funding for the West London Waste Authority has risen, and the income target set in July has not yet been achieved. Members should note that the budget gap is based on an assumed 1% increase in government grant in 2008/09 which is at the bottom end of predictions of the grant increase. Each 1% additional increase in grant funding would reduce the budget gap by £1.5m.
- 4.2 Measures that can be taken to reduce the gap are as follows:
- a. *Surplus carried forward from 2007/08:* The current budget gap assumes that there will be no surplus carried forward from 2007/08. Use of £1m of balances to support the 2008/09 budget would reduce the budget gap by £1m and represent a reduction in balances used to support the budget compared to 2007/08, when £1.6m use of balances was assumed. Assuming the target level of balances for 2008/09 remains at £7.5m to £8m in 2008/09², this would require a minimum of £8.5m of balances to be carried forward to 2008/09. At present, as set out above, forecast balances at 31st March 2008 are £6.6m. Officers are currently reviewing measures that can be taken in 2007/08 to reduce the current forecast level of overspend by a minimum of £1.9m to enable use of £1m of balances to support the budget. This involves a combination of bringing down projected overspends in adults' and

¹ The budget gap reported in July assumed 2% savings within cash limits over and above the level of budget gap shown. Revised figures in Appendix B have added back those 2% savings for 2008/09 so that a proper comparison can be made between the July and current position. It should be noted that budget gap projections for 2009/10 and 2010/11 in Appendix C are over and above assumed 3% budget savings within service cash limits.

² The Director of Finance and Corporate Resources recommends a target level of balances as part of the main budget report based on an assessment of risks within the budget. It is not anticipated that financial risks in 2008/09 will be significantly different from those faced in 2007/08, so at this stage it is anticipated that the target level of balances in 2008/09 will remain at £7.5m to £8m.

children's social care and reducing spending in areas that are currently forecast to spend within budget.

- b. *Reducing inescapable growth:* Inescapable growth – growth arising from demand pressures, price increases above inflation, or loss of income – is currently forecast at £11.1m including £3.6m for cost transfers from the PCT and £7.5m for other items. Details are provided in Appendix D. The overall level of growth forecast for 2008/09 is £4.6m more than in the council's medium term financial strategy and the July budget up-date report to the Executive. This primarily reflects a re-assessment of budget pressures in adult social care to take into account underlying budget shortfalls which are contributing to the current overspend in that area. Officers are currently reviewing the evidence to support the requirement for inescapable growth with a view to reducing the amounts that are needed by a minimum of £2m. In addition, adult social care are in the process of developing fundamental changes to the way in which the service is delivered – with increased self-directed support by clients, changes to the assessment and review process and a review of day care services – with a target of achieving additional savings of £1.4m over and above the £1m savings included in the 2007/08 budget from service transformation and savings already agreed for adult social care for 2008/09 at the Executive on 8th October 2007. The net effect of these changes – ie the £2m reduction in budget pressures and the £1.4m savings from service transformation in adult services - would be to reduce the amount needed for unavoidable growth from £11.1m to £7.7m, bringing it to within £1.2m of the amount included in the medium term financial strategy.
- c. *Service priority growth:* The expectation, set out in the council's Corporate Strategy, was that priorities within the strategy would be met primarily from within existing resources. A major exception was the step change to street cleaning and waste management which required £2.5m to be added to the waste contract budget. The allocation to service priority growth has already been reduced significantly from the £3m included for 2008/09 in the medium term financial strategy to £1m. The administration will be reviewing the need for additional funding to deliver their priorities with a view to reducing the requirement for priority growth to £0.6m, which would reduce the budget gap by a further £0.4m. An option, should a budget gap remain at the end of the budget process, would be to remove all funding for service priority growth.
- d. *Income generation:* The budget up-date report to the Executive in July set a target of £1.5m for additional income to reduce the budget gap. So far, £0.4m has been identified (Appendix E). Another £1.1m needs to be identified to achieve the target set in July. Officers are currently reviewing the options for achieving additional income and are also commissioning external consultants to identify opportunities for ensuring the council is using its discretionary power to charge for services in all appropriate circumstances and that, where appropriate, it is achieving full cost recovery for traded services. The results of this

work will be presented in the annual fees and charges report to the Executive in February 2008.

- e. *Central items*: Details of central items in the budget are included in Appendix F. Whilst some changes have been made to budget assumptions for these items, they are still subject to fundamental review, for example, to take account of the impact of the council's latest debt restructuring. Increases in these items include additional borrowing costs to fund the capital programme, increases in the levy that the council needs to pay to West London Waste Authority reflecting principally the impact of land-fill tax, the full year effect of implementing the neighbourhood working programme, increasing costs of maintaining the current administrative building portfolio, costs to the council of the affordable housing PFI, and the cost of decants as part of the South Kilburn development programme. It is anticipated that savings of up to £1.5m could be achieved by fundamental review of these items. Some of these items are also subject to policy decisions – for example, the level of borrowing needed to support the capital programme. At this stage, it is assumed the £1.5m can be achieved without fundamental re-consideration of policy issues. Members should however note that achievement of this reduction will be made more difficult by changes to the borrowing rules of the Public Works Loans Board (PWLB), the government run agency which lends to local government, aimed at reducing the ability of local authorities to make savings by restructuring their debt. In past years the council has been able to reduce the cost of central items by carrying out restructurings but this option is no longer available. The council is making representations to government to reverse this decision.

- 4.3 The net effect of the measures set out in paragraph 4.2 would be to reduce the budget gap by £7.4m, leaving further budget savings of £4.7m to be achieved to enable a council tax increase of 5% and further savings of £9.4m to enable a freeze in council tax. Details are in Table 1 below:

Table 1 Revised budget gap

	Council tax increase	
	5% £m	0% £m
Current gap	12.1	16.8
Items in Paragraph 4.2:		
o Surplus carried forward from 2007/08	(1.0)	(1.0)
o Inescapable growth/adult care transformation	(3.4)	(3.4)
o Reduced service priority growth	(0.4)	(0.4)
o Additional income	(1.1)	(1.1)
o Review of central items	(1.5)	(1.5)
Revised gap	4.7	9.4

4.4 There are of course still considerable uncertainties in the budget projection, including the level of government funding, the scale of the cost transfer from the PCT, the amount by which the West London Waste Authority levy will increase, and achievement of some of the measures set out in paragraph 4.2. However, whatever happens, it is clear that further measures in addition to the savings agreed at the Executive on 8th October 2007 and the targets set out in paragraph 4.2, will be required. Other measures being reviewed include:

- a. *Savings over and above those agreed at the Executive on 8th October.* All service areas are currently reviewing options for achieving savings over and above those agreed on 8th October. As part of this process, officers will identify potential service implications of the options being considered.
- b. *Use of Area Based Grant funds.* The government has consolidated a number of specific grants into an overall Area Based Grant. Details of the grant streams included in the Area Based Grant are attached as Appendix G. In the past spending funded by specific grant has not been subject to the same level of scrutiny as other areas of council spend. Area Based Grant is not ring-fenced and, as a result, services funded by it will be subject to greater challenge than hitherto. Officers are reviewing the extent to which funding can be released as a result of removal of the ring-fence.
- c. *Maximising legitimate expenditure charged to the Dedicated Schools Budget.* There are elements of costs that the council has not in the past charged to the schools budget, including for example the full cost of educating children in care, the cost of school support, and the borrowing costs associated with schools' capital schemes which are not supported by government grant. These costs are currently being reviewed to establish which elements can legitimately be charged to the Dedicated School Budget. Any costs that are charged to the schools' budget would have to be met from the central element of the Dedicated Schools Budget and would not impact on schools' devolved budgets. The costs would have to be contained within the permitted increase in the central element of the schools' budget which is estimated at 8% based on the provisional Dedicated Schools' Grant allocation for 2008/09. Any decision to use growth in the central element of the budget in this way would be subject to consultation with the Schools' Forum. In order to charge prudential borrowing costs to the Dedicated Schools Budget, formal approval from the Schools Forum would be required.
- d. *Using one-off funding to meet one-off spending.* There are certain elements of spending which are one-off and fall out in subsequent years, including for example leases coming near to the end of their life and charges to service budgets relating to redundancy. There may be opportunities to use one-off resources, including for example earmarked reserves not needed for their original purposes, to fund these items of spending. This would help bridge the budget gap for

2008/09 whilst maintaining the council's prudent approach to budgeting.

- e. *Remove provision for service priority growth.* See para 4.2(c) above.

Council tax increase

- 4.5 Members need to recognise that the budget pressures the council faces are such that it may be difficult to achieve a budget which is affordable within the permitted maximum council tax rise of 5% without cutting service provision. If members are to achieve a council tax rise of significantly less than 5%, then it is likely that a range of reductions in direct services provide by the council would need to be considered. Each 1% reduction in council tax below 5% requires additional budget reductions of approximately £940k.
- 4.6 The figures for council tax do not include the precept that will be set by the GLA. The Mayor will issue his consultation on the proposed GLA precept – which covers the Metropolitan Police, London Fire and Emergency Planning Authority, and Transport for London, as well as the GLA itself – in December 2007 and his budget proposals will then go through a process of scrutiny by the Greater London Assembly. The final precept will be decided in the second half of February 2008. At this stage, the indications are that the precept increase in 2008/09 will be no more than 5%.
- 4.7 The level of council tax increase for the council is affected by the extent to which the council tax base has changed between 2007/08 and 2008/09 and the estimated deficit in the Collection Fund. The council tax base for Brent will be determined by the General Purposes Committee and the estimated deficit in the Collection Fund will be determined by the Executive – both in January 2008. In addition, the GLA precept increase is affected by changes to the council tax base across London. The GLA will know the impact of the council tax base on its precept once all London boroughs have set their council tax bases which they are required to do by the end of January 2008.

Government funding decisions

- 4.8 The government will be announcing shortly the level of Formula Grant and Area Based Grant the council will receive. Current budget assumptions are that Formula Grant will increase by 1% (which is a prudent assumption) and Area Based Grant will increase in line with inflation.
- 4.9 One of the principal reasons the council remains on the grant 'floor' is that government population figures continue to underestimate the council's actual population. Brent's population was 269,600 in the 2001 Census; according to the Office for National Statistics (ONS) it had increased by only 1,800 to 271,400 by mid-2006. The government uses ONS population projections for future years to determine grant and these show Brent's population as broadly static over the next three years. The Greater London Authority has done its own projections of Brent's population taking into account planned housing developments and it estimates that the population is currently 279,000 and will increase to 290,000 by 2011. Separate work commissioned by the

council from Professor Les Mayhew, using a variety of data-sources such as GP registrations, schools' data-bases, housing records, council tax records and so on, shows that Brent's population at March 2007 could be as high as 289,000. There are also contradictions between ONS figures and other government data sources. For example, ONS figures at mid-2006 showed that there were 47,600 0-14 year olds in Brent whilst HM Revenues and Customs figures, based on child benefit entitlement, showed that there were 52,195 0-14 year olds. In addition, Brent, along with Newham, has the highest number of non-UK national insurance registrations of any council area in the country – around 15,000 each year – which is an indication of the scale of migration into the borough. Each person who is undercounted costs the council £500 each year in government grant. Without the grant 'floor', this would mean a loss of between £5m and £10m each year because of population under-counting of between 10,000 (GLA estimates) and 20,000 (Les Mayhew estimates). In addition, undercounting of population affects funding of other local services such as health, not just local government. The continuing under-counting of Brent's population, and failure to recognise growth in population, means the council is receiving no additional funding for the increased numbers of people it has to provide services for.

4.10 In addition to this, other funding decisions have been taken by government which deprive the council of resources. These include:

- a. *A 10% reduction in the cap on temporary accommodation rents eligible for housing benefit subsidy* - this is estimated to cost the council approximately £1.7m in a full year;
- b. *A 1.3% reduction in subsidy for housing benefit administration* – this is estimated to cost the council £130k in a full year;
- c. *Introduction of land-fill tax at £8 per tonne* – this is a significant contributory factor to the estimated £1.6m increase in the West London Waste Authority levy;
- d. *Removal of Local Authority Business Growth Initiative (LABGI) funding* – the council budgeted for £2.750m of funding from LABGI in 2007/08 of which £1.250m was ring-fenced for 'invest to save' initiatives and £1.5m remained in the base budget. The government has removed this funding for 2008/09 and it will be at a significantly lower level in 2009/10 and 2010/11.

Each of these items has been built into the budget as unavoidable growth except for removal of LABGI, loss of which is expected to be offset by additional income over and above the budgeted level for 2007/08 as a result of the opening of Wembley Stadium

- 4.11 The introduction of new arrangements for Neighbourhood Renewal Funding (NRF) means the council could also lose up to £2.3m of grant for some of the poorest neighbourhoods in Brent. Currently this funding is used to support a range of programmes, including:
- a. Targeted employment interventions through Brent in2work;
 - b. Community safety interventions, including tackling gun crime and targeted domestic violence projects;
 - c. Re-assurance policing in Harlesden and neighbourhood wardens in St Raphael's;
 - d. Award winning extended schools project at Mitchell Brook School;
 - e. The fire brigade's 'LIFE' project, aimed at reducing domestic fires;
 - f. A range of youth and young people's activities.

The announcement of NRF allocations is expected at about the same time as overall Formula Grant. Any decision by the government to remove funding would put at risk these projects and consideration would have to be given to whether or not these projects were continued and, if so, other council services which would need to be cut back.

- 4.12 Brent Council has also in particular been affected by the transfer from the PCT of costs as a result of the PCT deficit.
- 4.13 The council has been making representations to government on these issues. The key points addressed in representations are as follows:
- a. The 'floor' level of grant to be increased in line with inflation, particularly for those councils which face increased social care costs as a result of demographic pressures;
 - b. Adjustments to grant where there are any transfers of costs to councils eg PCT costs transfer or reduction in funding for homelessness;
 - c. Protection for councils that may lose NRF funding to ensure sustainability of improvements in areas covered by the existing grant regime;
 - d. Additional revenue and capital funding for areas with high levels of population mobility/growth which is not reflected in ONS statistics;
 - e. A reversal of the Public Works Loans Board decision to reduce ability of councils to make savings by restructuring loan debt.

Longer term position

- 4.14 The council needs to look at spending decisions, and associated resource projections, over at least a three year period. This ensures effective service development and prevents the council having to make significant adjustments to its spending plans each year. It is important therefore that, when members

consider budget issues, they take account of the longer term impact. This means recognising that one-off resources, such as balances or one-off grants, can act as a palliative in one year of the budget cycle but cause problems in future years. It also means that, if there is new growth which is on-going, the resource implications in future years have to be considered.

- 4.15 Further work needs to be carried out on the potential impact of demand and other growth pressures after 2008/09, the impact of the three year funding settlement due to be announced shortly, and other projections through to 2011/12. This work will be reflected in an up-dated medium term financial strategy which will be included in the budget report to Full Council in March 2008.

Activity levels and outcomes

- 4.16 Setting the budget is not just a financial exercise. Having sufficient budget – and prioritising how that budget is used – is the means by which the council delivers services within Brent. In addition, budget discussions are often confined to spending at the margin – growth or savings – and do not focus on how the rest of the budget (the 95% or more not affected by growth or savings) is used. In order to help members focus attention in budget discussions on the activities the budget supports – and the performance of those activities – high level information which shows how the budget is divided between council services, activity measures for individual services (for example, the number of children in care), and performance measures such as the percentage of council tax collected has been circulated to members. This information is intended to help inform members when making decisions as part of the budget decision making process.

5.0 Dedicated Schools Budget

- 5.1 The introduction of the Dedicated Schools Budget from 1st April 2006 was a fundamental change to the way in which councils' budgets are constructed. Previously, schools' spending was part of the overall council budget, and was funded from Formula Grant and council tax. From 2006/07, schools' spending was funded directly from a Dedicated Schools Grant. It is therefore totally ring-fenced and does not appear as part of the council's overall budget requirement. The result is that the £173.9m the council is spending through the Dedicated Schools Budget on schools in 2007/08 is treated totally separately from spending on other General Fund services.
- 5.2 The government has announced indicative allocations of Dedicated Schools Grant for 2008/09 to 2010/11. The average national per pupil increase is 4.6% in 2008/09. The per pupil increase for Brent is above average at 5.0%, primarily as a result of the award of additional funding to authorities such as Brent which spent below the government's hypothetical allocation under the pre-2006/07 system. The overall increase for Brent, after taking account of projected pupil growth, is 8% in 2008/09, which is the highest in England. Caution has to be exercised in allocating this amount to schools and central items, since the actual increase will not be announced until June 2008 based

on the result of the January 2008 pupil count. The indicative per pupil increases for 2009/10 and 2010/11 are 4.3% (compared to a national average increase of 3.7%) and 4.7% (compared to a national average increase of 4.3%) respectively. Increases are below increases in recent years (8.2% per pupil in 2006/07 and 8.1% per pupil in 2007/08) but still considerably above inflation.

- 5.3 Despite the increases in funding in recent years, Brent schools still receive less funding than the London average. Funding per pupil from the Dedicated Schools Grant in 2008/09 is £4,894 which is £128 below the London average. 15 of the 33 London boroughs still get more funding per pupil than Brent.
- 5.4 The government has also announced funding available through the Standards Fund which is paid directly into the Dedicated Schools Budget. Total funding has increased from £6.712m in 2007/08 to £7.280m in 2008/09, an increase of 8.5%. A further £1.986m of funds that previously were included in the Standards Fund have been included within Area Based Grant for 2008/09.
- 5.5 The Schools Forum will be meeting on 12th December 2007. The agenda will include the government announcement on funding, the results of the review of the funding allocation formula to schools, and calls on the central element of the Dedicated Schools Budget. There is a requirement that the year on year increase in the central element of the DSB (which includes Special Education Needs element and other areas) cannot be greater in percentage terms than the increase in funding delegated to schools, unless the Forum agrees a higher increase. In the case of charging prudential borrowing costs to the Dedicated Schools Budget, formal approval from the Schools Forum would be required even if this did not cause a greater increase in the central element. A key issue that will need to be addressed is competing demands on the central element of the budget which will include pressure on the costs of special education needs for pupils not in school, provision of education for children in care, funding for lead professionals to co-ordinate support for vulnerable children, the need to increase funding for schools' capital works, and other legitimate charges to this budget.
- 5.6 Final decisions on the allocation of the Dedicated Schools' Budget will be taken by the Executive in February 2008.

6.0 Housing Revenue Account

- 6.1 The Housing Revenue Account covers the activities of the council as landlord for approximately 9,100 freehold dwellings and 500 leasehold dwellings. 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.
- 6.2 The rent increase for council dwellings takes account of the government's guidelines on convergence between rents charged by councils and Registered Social Landlords (mainly housing associations). In 2007/08, this resulted in an average rent increase of 5%.

- 6.3 The HRA forecast outturn for 2007/08 indicates a surplus of £776k, which is £376k more than that provided for in the original budget.
- 6.4 The government is due to publish its draft HRA determination and HRA subsidy determination for 2008/09 shortly. These will set out an expected rent increase and also enable the council to determine the expected budget gap on the HRA. Once this information is available, officers will put together a detailed budget which will include options for bridging the gap.
- 6.5 The final HRA and HRA subsidy determinations will be published in January and the Executive will make decisions on the rent increase to be applied in 2008/09 in February 2008.

7.0 Capital Programme

- 7.1 The capital programme is a four year rolling programme which is up-dated each year. The current 2007/08 to 2010/11 capital programme was agreed as part of the overall 2007/08 budget process in March 2007 and has been up-dated to reflect changes reported to the Executive since. A high level summary of the current capital programme is attached as Appendix H.
- 7.2 The capital programme for 2007/08 to 2010/11 reflects the priorities in the Corporate Strategy. The revised capital programme for 2008/09 to 2011/12 will be up-dated to reflect new information on spending needs resulting from revised asset management plans and also rolled forward to include the 2011/12 financial year. It will incorporate additional funding such as the £1.4m awarded for the Harlesden Library and Learning Centre by the Big Lottery Fund and the £180k which it is proposed to allocate as part of the libraries strategy to up-grading Neasden Library.
- 7.3 The key challenge for the capital programme is funding for the schools' capital programme where pressure to provide additional school places and to ensure priorities within the schools' asset management plan are addressed is likely to require additional funding. The demands on the programme are being reviewed, together with likely availability of resources available from government for the next three years following the Comprehensive Spending Review and funding from other sources including section 106 agreements and the Academy programme. There will also be discussions with the Schools Forum about the extent to which any additional borrowing required, over and above funding from government and other sources, can be funded within the central element of the Dedicated Schools Budget.
- 7.4 There is also the need to identify additional resources to ensure that the improvements in the council's housing stock following successful implementation of the decent homes programme are maintained. There have been significant levels of investment in recent years which have been funded by government borrowing approvals, with the cost of borrowing met by housing subsidy. Subsidisable levels of borrowing are forecast to be considerably lower in future years and other options for funding works

necessary to maintain the housing stock are currently being reviewed. Costs of borrowing for the HRA housing capital programme cannot be charged to the General Fund so this will have no direct impact on borrowing costs to be met from council tax. There will be a report to the Executive early in the New Year on options for funding future requirements for capital spending on the housing stock.

- 7.5 The capital programme is currently based on the assumption that borrowing that falls on the General Fund will be at the level set out in the council's medium term financial strategy. Members could decide to reduce that borrowing as a way of helping bridge the budget gap in 2008/09 and beyond. Table 2 below shows the revenue budget implications of the current levels of unsupported borrowing. The capital programme development process has so far assumed that future years' borrowing targets will not be amended.

Table 2 Impact of Unsupported Borrowing on Revenue Costs

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
2004/05 Unsupported borrowing £8.010m (excluding all self funded expenditure)	841	841	841	841
2005/06 Unsupported borrowing £12.046m (excluding all self funded expenditure)	1,265	1,265	1,265	1,265
2006/07 Unsupported borrowing £0m (excluding all self funded expenditure)	0	0	0	0
2007/08 Unsupported borrowing £15.850m (excluding all self funded expenditure)	539	1,680	1,664	1,664
2008/09 Unsupported borrowing £4.844m (excluding all self funded expenditure)	0	165	513	509
2009/10 Unsupported borrowing £4.844m (excluding all self funded expenditure)	0	0	165	513
2010/11 Unsupported borrowing £4.844m (excluding all self funded expenditure)	0	0	0	165
Cumulative total	2,645	3,951	4,448	4,957
Impact on Band D council tax – using 2007/08 council tax base of 93,900.	£28.17	£42.08	£47.37	£52.79

8.0 Timetable

8.1 The timetable for finalising the 2008/09 budget is attached as Appendix I. Key dates are as follows:

- funding figures for 2008/09 to 2010/11 from central government expected late November or early December;
- release of the Mayor's consultation on the GLA budget in mid-December;
- administration's draft proposals issued in early February;
- Executive decides recommendations to Full Council on budget at meeting on 11th February;
- GLA budget agreed on 13th February;
- Full Council decides budget on 3rd March.

8.2 The Budget Panel will be scrutinising the budget at various stages of this process: prior to the administration's draft proposals being issued; after the proposals have been issued, with their discussions feeding into Executive consideration of the budget proposals on 11th February; and following the decisions of the Executive on 11th February, feeding into the Council budget debate. Consideration is being given by the Budget Panel to ways in which more members can be involved in this process.

8.3 Members should note that a considerable amount of work needs to be carried out before Full Council decides on the 2008/09 budget at its meeting on 3rd March. The council does not yet know the funding settlement for 2008/09 or how much funding it will receive through Area Based Grant. Future funding levels for neighbourhood renewal are still uncertain. Whilst a lot of work has already been carried out to identify budget pressures, priority growth needs, potential budget reductions, and income generation opportunities, this report has shown that a significant amount of further work needs to be done on these items before it will be possible to put together the final budget report and for Full Council to agree a budget and council tax for 2008/09.

9.0 Financial Implications

9.1 The report is entirely concerned with financial implications.

10.0 Legal Implications

10.1 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.

10.2 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 their expenditure priorities. This report, together with the separate report on this agenda on the priorities of the administration, sets out the required information. There will be a debate on the issues raised herein and in the separate report, which will be conducted in accordance with Standing Order 44.

- 10.3 Following the First Reading Debate, a record of the debate will be sent to the Leader and to Chair of the Budget Panel. The Budget Panel will meet and produce a report setting out its view of the budget priorities and any other issues it considers relevant. This report will be submitted to each Executive Member and each Group Leader in order to inform budget proposal discussions. Prior to being agreed by the Executive, the Executive's budget proposals will be sent to members of the Budget Panel which will consider the proposals and submit a note of its deliberations and comments on the proposals to the Executive. The Executive will take into account the issues raised at the First Reading Debate and the note of the deliberations and comments from the Budget Panel in making its budget recommendations to Full Council.
- 10.4 The final proposals will be submitted by the Leader to a special meeting of Full Council for consideration and determination no later than 10th March in accordance with Standing Order 34. 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 but this only applies where the budget setting meeting takes place before the 8th of February.

11.0 Diversity Implications

- 11.1 Prioritisation and decision making as part of the budget process are tied into the council's corporate strategy, individual strategies and service development plans. The priorities within these reflect the council's commitment to tackling discrimination and disadvantage as part of its Comprehensive Equality Plan (CEP). In addition, services have been required to carry out Impact Need and Requirements Assessments in developing individual growth and savings proposals. The impact of budget decisions is monitored through the council's performance monitoring systems. Members need to bear in mind the diversity implications of any proposals they put forward as part of the First Reading Debate.

12.0 Background Papers

- Corporate Strategy 2006-2010
- Priorities for the Administration – on this agenda
- Capital Strategy 2006-2011
- 2007/08 budget and council tax report – Full Council on 5th March 2007
- Performance and Finance Review Report – Quarter 1 (April to June 2007)– the Executive on 11th September 2007

- Performance and Finance Review – Quarter 2 (July to September 2007) – draft due to go to Performance and Finance Select Committee on 28th November 2007

13.0 Contact Officers

Duncan McLeod/Peter Stachniewski
Brent Town Hall
020 8937 1424 or 020 8937 1460
e-mail address: duncan.mcleod@brent.gov.uk or
peter.stachniewski@brent.gov.uk

DUNCAN McLEOD

Director of Finance and Corporate Resources