

SECTION 5

5. THE 2008/09 REVENUE BUDGET REQUIREMENT

Introduction

- 5.1 This section details the proposals for the 2008/09 revenue budget.
- 5.2 The strategic context for the budget proposals for 2008/09 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 of the council in the context of the Medium Term Financial Strategy. These are set out in the Corporate Strategy 2006-10, with the aim being to make Brent a Great Place, a Borough of Opportunity and One Community. In his report to the First Reading Debate at Full Council on 26th November, the Leader set out 4 particular areas that the Administration wanted to focus on which were regeneration, young people, community safety and sustainability.
- 5.3 Effective use of resources is key to the delivery of these priorities. The combination of below inflation grant increases and pressures on the budget means that the council cannot put additional mainstream resources into funding priorities. This budget seeks therefore to use a combination of other measures to deliver the council's priorities including:
- a. sustaining investment in those areas allocated additional resources in 2007/08;
 - b. further developing the council's efficiency strategy to help manage growth pressures and deliver savings;
 - c. rolling out Neighbourhood Working to all wards, including the provision of locally managed budgets to help meet locally identified need; and
 - d. using the new generation of Local Area Agreements and the introduction of Area Based Grant to help deliver improvements in priority areas through partnership working.
- Appendix J sets out priorities within the Corporate Strategy and the way in which resources are being used to help deliver these.
- 5.4 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:
- a. The balance between spending and council tax;
 - b. The purpose and impact of budget growth proposals;
 - c. The deliverability and impact of budget savings proposals;
 - d. The adequacy of budget provision for central items;
 - e. The sustainability of the overall budget in the current year, including consideration of risks and the appropriate level of balances; and

- f. The sustainability of the overall budget in future years, taking account of future commitments, the delivery of Corporate Strategy priorities, and the likely availability of resources.
- 5.5 Under the Local Government Act 2003, 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 2008/09 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.
- 5.6 This section of the report sets out:
- Service area budgets;
 - 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.
- 5.7 The budget requirement that results from the proposals in this section is £256.972m (see Appendix B). After allowing for Brent's share of the deficit in the Collection Fund of £1.149m, this would produce a Council Tax at Band D for Brent services of £1,033.11, which is 3.8% above the 2007/08 level of £995.58. Details of the council tax calculation, and the GLA precept, are given in Section 6 below.

2008/09 Service Area Budgets

- 5.8 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.
- 5.9 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:
- a. There has been a net reduction in amounts allocated to 'inescapable' growth of £1.820m. The principal change has been the amount allocated to adult care services. The First Reading report included a total of £7.686m for 'inescapable' growth on adult care services which was a

combination of cost of transitions for people with learning and physical disabilities from children's care to adult care, provision for continuing care cases transferring from health, and other pressures which have impacted on the 2007/08 budget including continuing increases in the cost of home care and over-budgeting for income. Discussions with the Primary Care Trust about continuing care cases transferring to the council are continuing and there is still uncertainty about the costs the council could face on an on-going basis. In addition, the impact of general demographic pressures on the adult care budget is difficult to assess. Nevertheless, overall client numbers, excluding transfer of continuing care cases and transitions from children's services, have remained relatively stable and the council has received additional grant funding for adult care services through the Area Based Grant and other specific grants. Officers therefore consider that the £2m target reduction in adult care 'inescapable' growth proposed in the First Reading Debate report can be incorporated in the budget, subject to recognition that this remains one of the principal risk areas within the 2008/09 budget. Other changes in 'inescapable' growth since the First Reading Debate are inclusion of additional inflation costs for the street care and street lighting contracts, principally as a result of increases in energy costs, and removal of items previously included which can now be funded from Area Based Grant. The total for 'inescapable' growth in Appendix D(i) is now £9.230m compared to £11.050m at the time of the First Reading Debate report.

- b. There are additional net savings within budgets of £3.060m. A total of £5.461m of savings were agreed at the Executive on 8th October 2008. Since then, a saving on health and safety administration has been deleted pending further consideration of the overall arrangements for health and safety and occupational health within the council and the saving from compulsory recycling has been reduced because of the need to reach agreement on the arrangements with the contractor, Veolia. The result is that the savings previously agreed now stand at £5.221m. A total of £3.300m additional savings are now proposed for 2008/09. These include:
- (i) a further £1.683m savings within the adult care service of which £1.642m are from the adult care transformation programme;
 - (ii) a further £320k from the housing service which consists of temporary accommodation savings and additional homelessness grant;
 - (iii) a £300k repayment of invest to save funds allocated to children's care. This reflects the on-going reduction in child care costs which, although overspending in 2007/08, are £922k less in the first 9 months of 2007/08 than the equivalent period in 2006/07 and have been falling steadily during the current year; and
 - (iv) additional savings of £320k within Environment and Culture and £677k in the corporate centre from on-going delivery of efficiency measures within individual service units.

Appendix D(ii) shows the savings in each service area. Total savings that have to be achieved across service areas are therefore £8.521m compared to £5.461m at the time of the First Reading Debate.

- c. Other key changes to service are budgets since the First Reading Debate are in 'other adjustments' in Appendix D (iii). These include:
- (i) *Additional income items.* The Executive on 11th February agreed proposals to generate an additional £1.5m of income in 2008/09 (compared to £380k included in the First Reading Debate report). £961k of this has been allocated to individual service cash limits. The balance of £539k is included in central items (on top of £48k already in central items for advertising and sponsorship). This includes a further £42k from advertising and sponsorship, with the balance of £497k to come from a combination of: further measures to increase advertising and sponsorship income, reviews of on- and off-street parking charges and staff parking costs, the introduction of charges for payment of council bills by credit card, and proposed increases in court costs for non-payment of council tax.
 - (ii) *Funding of one-off items in 2007/08.* There is a total reduction in cash limits of £378k in 2008/09 relating to deletion of payments to the Pension Fund for early retirements. These payments, which cover up to three years, will be met from one-off funding derived from a review of ear-marked reserves. The total amount required to compensate the Pension Fund for these costs until 2010/11 is £676k.
 - (iii) *Amendments to cash limits for Area Based Grant.* The introduction of the Area Based Grant is intended to give councils flexibility to (1) ensure that resources targeted at particular areas are being used efficiently; and (2) use resources to meet priorities within the council's Local Authority Agreement. The grant was announced too late to allow a fundamental review of the way money is used and spending priorities within the 2008/09 budget. In addition, final priorities within the Local Area Agreement have not yet been agreed so it is not possible within the 2008/09 budget to redirect resources. At this stage, therefore, cash limits have been adjusted to reflect the introduction of Area Based Grant and these adjustments are reflected in Appendix D(iii). Funding growth within the Area Based Grant and specific grants for adult care has been used to help meet budget pressures in adult care (see above). In the case, of the other two main areas of growth – Working Neighbourhoods and children's services – it is proposed to top-slice additional funding going into these areas to reflect the fact that it will be difficult to get schemes fully up and running by the beginning of the 2008/09 financial year. This top slice will also allow further consideration of priorities within the Local Area Agreement. The amounts it is proposed to top-slice are £100k from Working Neighbourhoods and £400k from Children and Families. Details of the Area Based Grant allocation are given in Appendix D(iv).

Appendix D(iv) also includes details of specific grants, which are treated as income within service area cash limits.

5.10 Table 5.1 below summarises the changes in budget at service area level between 2007/08 and 2008/09.

Table 5.1 Service Area Budgets

| | 2007/08 Revised Budget | Inflation | 'Inescapa- ble' Growth | Savings | 2008/09 Budget Before Ad'jts | Change 2007/08- 2008/09 | Other Adj'ts | 2008/09 Budget |
|---|------------------------------|--------------|------------------------------|----------------|---------------------------------------|-------------------------------|-----------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | % | £'000 | £'000 |
| Children and Families | 48,902 | 1,053 | 0 | (735) | 49,220 | 0.7 | 9,460 | 58,680 |
| Environment and Culture | 46,819 | 1,093 | 1,165 | (1,474) | 47,603 | 1.7 | (150) | 47,453 |
| Housing and Community Care: | | | | | | | | |
| - Housing and Customer Services | 17,990 | 470 | 2,249 | (734) | 19,975 | 11.0 | 687 | 20,662 |
| - Adult Social Care | 75,418 | 1,394 | 5,686 | (3,496) | 79,002 | 4.8 | 7,349 | 86,351 |
| Finance & Corporate Resources / Central | 22,024 | 562 | 130 | (2,082) | 20,634 | (6.3) | 406 | 21,040 |
| Total | 211,153 | 4,572 | 9,230 | (8,521) | 216,434 | 2.5 | 17,752 | 234,186 |

Member decisions on service area budgets

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

Central Items

5.12 Central items are spending items which are not included in individual service cash limits. Details of the items covers are in Appendix F. Table 5.2 below sets out 2008/09 budgets for central items, compared to the provisional outturn for 2007/08.

Table 5.2 2008/09 Budget for Central Items

| | 2007/08 Forecast Outturn | 2008/09 Budget | Change |
|--|--------------------------------|-------------------|-----------------|
| | £'000 | £'000 | £'000 |
| Coroners Courts | 193 | 198 | 5 |
| LGA | 69 | 69 | 0 |
| London Councils | 159 | 198 | 39 ¹ |
| LGIU Subscription | 19 | 19 | 0 |
| West London Alliance | 20 | 20 | 0 |
| Park Royal Partnership | 25 | 25 | 0 |
| Copyright Licensing | 11 | 13 | 2 |
| External Audit | 397 | 425 | 28 |
| Corporate Insurance | 260 | 280 | 20 |
| Capital Financing Charges | 22,281 | 23,724 | 1,443 |
| Net Interest Receipts | (4,591) | (3,549) | 1,042 |
| Levies | 6,526 | 8,373 | 1,847 |
| Premature Retirement Compensation | 4,199 | 4,200 | 1 |
| Middlesex House/Lancelot Road | 422 | 454 | 32 |
| Remuneration Strategy | 2,415 | 2,500 | 85 |
| South Kilburn Development | 300 | 570 | 270 |
| Investment in IT | 820 | 820 | 0 |
| Insurance Fund | 1,800 | 1,800 | 0 |
| Civic Centre/Property R&M | 1,051 | 1,200 | 149 |
| Neighbourhood Working | 460 | 850 | 390 |
| Local Authority Business Growth Incentives | (3,460) | (1,500) | 1,960 |
| Affordable Housing PFI | 254 | 514 | 260 |
| Neighbourhood Renewal Fund | (2,279) | 0 | 2,279 |
| Corporate Efficiency Savings | (1,000) | (1,500) | (500) |
| Income Generation Initiatives | (48) | (587) | (539) |
| Future of Wembley | 350 | 350 | 0 |
| Leasing Costs (Internal Scheme) | (128) | (120) | 8 |
| Invest to save | 106 | (156) | (262) |
| Capitalisation adjustment | 0 | (600) | (600) |
| Other items | (16) | 68 | 84 |
| TOTAL | 30,615 | 38,658 | 8,043 |

5.13 The principal increases in budget requirements since 2007/08 are as follows:

- a. Neighbourhood Renewal Fund – *reduced income of £2.279m*. This is now included as part of Area Based Grant, which is shown separately within the budget. This is therefore a technical adjustment;

¹ The increase in the London Councils contribution is the result of a transfer of London Housing Unit Committee costs from the Housing budget into central items.

- b. Levies – *increased cost of £1.847m*. Levies are made up of the following:

| | 2007/08 | 2008/09 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Lee Valley Regional Park | 285 | 289 |
| London Pensions Fund Authority | 281 | 399 |
| Environment Agency | 172 | 191 |
| West London Waste Authority | 5,717 | 6,993 |
| Allowance for increased waste tonnages and increased prices | 71 | 501 |
| | 6,526 | 8,373 |

The increase in the London Pensions Fund Authority levy is due to residual liabilities for settled and anticipated asbestos claims by former Greater London Council employees.

Increases in the West London Waste Authority (WLWA) levy of £1.276m are due to a combination of a general increase in the overall levy – which is 17.1% - and unwinding of *transitional relief arising from the move from a council tax* basis to a tonnage basis. Additional allowance of £430k has been made to fund increases in waste tonnage reflecting recent trend increases and WLWA price increases from £53.50 per tonne to £66.41 per tonne for waste not funded within the overall levy price (known as Section 52(9) waste). The government has increased land-fill tax from £24 per tonne in 2007/08 to £32 per tonne in 2008/09. The combined impact of this on the levy and Section 52(9) charges is estimated at £940k in 2008/09. This increase is included in the figures in the table above.

- c. Local Authorities Business Growth Incentive Scheme – *reduced income of £1.960m*. This reduction had been anticipated in the 2007 Medium Term Financial Strategy at which stage the council were still expecting to receive a payment in 2008/09 but not at the same level as 2007/08. As part of the Comprehensive Spending Review 2007, the government announced a fundamental review of the scheme going forward and removal of funding in 2008/09. However, growth in business rateable values in Brent in 2007/08, driven primarily by the opening of the new Wembley Stadium, meant officers confidently predicted that the income in 2007/08 would be sufficient to meet the 2007/08 budget assumptions and provide £1.5m to carry forward to 2008/09. The government has subsequently taken a decision to review the basis of allocation in the current year, which means that the council can no longer be certain about the amount it will receive. The total available at a national level for distribution - £400m – is significant and it is believed that on any reasonable allocation basis the council would generate enough to cover its budget estimates. However, lack of information from government about the changes they are considering means that this remains a very significant risk.
- d. Capital financing charges – *increased charges of £1.443m*. This is a combination of the impact of borrowing to fund the capital programme (see

Section 10 below) and the removal of the one-off £700k additional income from HRA subsidy in 2007/08 (see Section 4 above).

- e. Net interest receipts – *reduced income of £1.042m*. The council secured £600k additional income in 2007/08 from the relatively high Bank Rate. Bank Rate has come down from 5.75% to 5.5% recently and is expected to fall to around 4.5% in 2008/09 (see section 11). This will reduce significantly the amount of interest the council receives in 2008/09.
- f. Neighbourhood Working – *increased costs of £390k*. This reflects the roll-out of Neighbourhood Working to all wards, including a £20k budget for each ward to be spent on local initiatives.
- g. Affordable Housing PFI – *increased budget of £260k*. The increase reflects the funding required to meet the council's contribution to the Affordable Housing PFI. It was agreed in the 2007/08 budget that this would be funded from the cumulative impact on capital financing charges of deletion of social housing grant funding from the capital programme.

5.14 The principal reductions offsetting the increases in the central items budget set out in paragraph 5.13 above are as follows:

- a. Income generation initiatives – *increased income of £539k*. This contributes to the overall £1.5m additional income generation included in the 2008/09 budget detailed in paragraph 5.9(c) above and in the separate report on the February 2008 Executive agenda on fees and charges.
- b. Corporate efficiency savings – *increased savings of £500k*. Details of the efficiency programme are set out in Section 13 of this report. These savings are on top of efficiency savings within individual service area budgets. The increase will be achieved by a combination of measures already in the pipe-line – tendering of security contracts, the introduction of a corporate procurement card, central procurement of staff travel, and improvements in cash-flow income as a result of further improvements in council tax collection – together with other cross-council efficiency measures to be developed during 2008/09.
- c. Capitalisation adjustment – *additional charge to capital of £600k*. This is a technical adjustment. It is offset in the revenue budget by adjustments to the Housing General Fund and corporate centre budgets to reflect reduced charges to the Housing Revenue Account and, in the capital programme, by a transfer of HRA capital costs which were previously met within the General Fund capital programme to the HRA capital programme. It is described in further detail in the HRA budget report on the Executive agenda. It has no overall impact on the revenue budget position.

Member decisions on Central Items

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

Risks

- 5.16 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.
- 5.17 Adult care spending is the most significant risk the council faces in 2008/09. There are a number of complex interrelated issues on adult care which make budget projections for the service difficult. These include:
- a. The underlying overspend on the service which, at the end of the second quarter of 2007/08 was projected at £3.2m, with large overspends on individual client groups partially offset by a large under-spend on core budgets;
 - b. The as yet unresolved dispute with the PCT on cases that will transfer to the council;
 - c. The on-going impact of transfers from the PCT which are not part of the dispute, transition from children's services for people with disabilities, and demographic trends; and
 - d. The impact of fundamental changes to the service as a result of adult care transformation.

Officers have reviewed current levels of activity, used the best information available on the cost of continuing care cases coming across to the council, have built in projections of other cost movements such as learning disability transitions, and made estimates of savings that will be generated through adult care transformation. It has not however been possible to provide for all potential growth and the targets that have been set for adult care transformation savings are challenging. Existing budgets have been re-aligned in order, as far as possible, to avoid the mismatch between overspending on individual client groups and under-spending on core budgets and corporate finance officers will have an active role in monitoring spend against budgets. In addition, there is a corporate group overseeing delivery of the adult care transformation programme, including delivery of the savings. These measures are aimed at reducing the risk of overspending but the uncertainties set out above, and the challenging targets, mean that it is not possible to eliminate them.

- 5.18 The other significant risk area is income from the Local Authorities Business Growth Incentive scheme which has been described in paragraph 5.13 (c) above.
- 5.19 These risks fit into the existing categories which the council uses to assess its budget risks. These are as follows:
- a. 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;

- b. risks from new legislation or other statutory changes, where there is some uncertainty about impact on council costs. The most significant change is to funding for temporary accommodation, where the council has budgeted for the costs and increases in Family Court Fees which have been funded as part of the 2008/09 finance settlement. The impact of the introduction of Local Housing Allowance is uncertain but unlikely to have a significant impact until it is reflected in how the government funds the cost of housing homeless families from 2009/10. In addition, changes to the arrangements for funding learning disability continuing care cases as part of the Valuing People Now agenda are unlikely to have an adverse impact in 2008/09 and should support the council's case against the transfer of ex-long stay learning disability cases from the PCT.
- c. risks from legal challenges. The council is currently being challenged in the courts over the setting up of the LAML insurance mutual. There are risks such as challenge over equal pay;
- d. partnership risks, with the principal one remaining the continuing care costs transferring from the PCT;
- e. interest rate risks, where market uncertainty has heightened this as a risk in 2008/09;
- f. procurement risks, where market conditions could mean that costs could increase – these include: cost of care packages although the council has worked successfully with West London partners in recent years to limit these increases; energy price inflation although additional provision has been made for the major contracts affected by this; and highways maintenance for which the contract is currently out to tender (this mainly affects capital);
- g. pay risks related both to the annual pay award and the impact of the single status agreement. 2.5% has been provided for pay increases in 2008/09 the budget. There are signs of increased militancy amongst public sector unions and, although 2.5% is higher than the government target of 2% the government itself has already breached this in its proposed pay award for teachers. Each 0.5% above the 2.5% provided would cost the council £0.6m;
- h. grant risks, arising from changes to grant conditions, the council not meeting grant conditions, or uncertainty about the amount that will be allocated. The largest single risk is LABGI;
- i. risks of not achieving savings or income targets in the budget. Particular risks are achievement of adult care transformation savings, repayment of 'invest to save' as a result of on-going reductions in children's care costs, and savings from compulsory recycling. Service areas have also delivered significant efficiency savings in recent years, and whilst the council's efficiency strategy provides the basis for more savings, achieving targeted efficiency savings within this budget will be challenging. There are also risks associated with achieving the additional £1.5m income built into the budget particularly in those areas where further decisions are required;
- j. asset management risks if corporate or service buildings have to be closed because of current condition;

k. risks from natural disasters or terrorist attacks.

Risks to the capital programme are addressed in Section 10 below.

5.20 The risks are quantified in Table 5.3 below.

Table 5.3 Major 2008/09 Spending Risks

| | Worst case | Likelihood | Est. risk |
|--|-------------------|-------------------|------------------|
| | £'000 | % | £'000 |
| <u>Demand risks</u> | | | |
| Adult care packages | 3,000 | 30% | 900 |
| Children's care packages | 2,000 | 15% | 300 |
| Temporary accommodation – increase in homelessness | 600 | 15% | 90 |
| Non-recyclable waste | 500 | 30% | 150 |
| <u>New legislation and other statutory changes</u> | | | |
| Local Housing Allowance, Family Court fees | 200 | 20% | 40 |
| <u>Legal challenge</u> | | | |
| Legal challenges – e.g. LAML, Equal Pay, employment tribunals, contractual disputes | 2,000 | 30% | 600 |
| <u>Partnerships</u> | | | |
| PCT transfers | 4,000 | 30% | 1,200 |
| <u>Interest rate fluctuations</u> | | | |
| Risk of major turbulence on markets | 1,000 | 30% | 300 |
| <u>Procurement risks</u> | | | |
| Risk that cost of social care placements may increase by more than the 2% allowed in the budget | 500 | 30% | 150 |
| Energy risk – risk of increases in energy prices which cannot be contained in budgets | 200 | 25% | 50 |
| Highways maintenance | 200 | 30% | 60 |
| Other procurement risks | 300 | 30% | 90 |
| <u>Pay risks</u> | | | |
| Risk that increases in the annual pay award above the 2.5% provided within budgets cannot be contained | 1,200 | 30% | 360 |
| Risk that additional costs will be incurred above those budgeted for single status | 500 | 20% | 100 |
| <u>Grant risks</u> | | | |
| Risk of not achieving LABGI income at level budgeted for | 1,500 | 50% | 750 |
| Risk of exceeding the threshold on housing benefit overpayments in 2008/09 | 600 | 20% | 120 |

| | Worst case | Likelihood | Est. risk |
|--|-------------------|-------------------|------------------|
| | £'000 | % | £'000 |
| Risk of amendments to housing benefit subsidy claim | 1,500 | 20% | 300 |
| <u>Savings/income risks</u> | | | |
| Risk of not achieving full saving from reconfiguration of adult social care | 1,700 | 30% | 510 |
| Risk of not achieving £300k repayment of invest to save on children's social care | 300 | 30% | 90 |
| Risk of not achieving savings from compulsory waste recycling | 200 | 30% | 60 |
| Risk of not achieving additional central savings from the Efficiency Programme | 500 | 20% | 100 |
| Risk of not achieving income items in the budget | 600 | 25% | 150 |
| Risk of not achieving other savings in the budget | 7,000 | 10% | 700 |
| <u>Asset management risks</u> | | | |
| Closure of council buildings and need to find alternative accommodation | 500 | 20% | 100 |
| <u>Major disaster</u> | | | |
| 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 | 31,100 | | 7,420 |

Balances

- 5.21 As set out in Section 4, the council's General Fund usable balances are forecast to be £8.605m at the end of 2007/08.
- 5.22 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.
- 5.23 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.

- 5.24 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.
- 5.25 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:
- a. The minimum prudent level of balances in 2008/09 should be £7.420m, which is sufficient to meet the revenue budget risks identified in the report;
 - b. 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;
 - c. As a general rule, Members should only plan to use balances to fund one-off spending;
 - d. 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.
- 5.26 Table 5.4 below presents the proposals from the Administration on balances in 2008/09.

Table 5.4 Proposed General Fund Balances in 2008/09

| | £'000 |
|---|--------------|
| Total Estimated Balances at 31st March 2008 | 8,605 |
| Proposed use of balances to fund 2008/09 budget | (1,105) |
| Estimated Balances at 31st March 2009 | 7,500 |

Member decisions on balances

- 5.27 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 5.25.

Overall Budget Requirement

- 5.28 The overall budget requirement in 2008/09 resulting from the proposals in this section is £255.972m. 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 2008/09

| | £'000 |
|--|----------------|
| Service area budgets – Table 5.1 | 234,186 |
| Area Based Grants -Appendix D(iv) | (15,767) |
| Central items – Table 5.2 | 38,658 |
| Use of balances – Table 5.4 | (1,105) |
| Proposed budget requirement for 2008/09 | 255,972 |

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

- 5.29 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 £7.420m, which will cover the General Fund revenue budget risks identified. 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. However, given that balances overall remain above the target level set for them and that the council has in place a number of projects that will deliver savings in future years, it is proposed to use £1.105m of balances, with the impact of this one-off use of balances taken into account in budget projections for future years in Section 7 below.

Member decisions on the overall budget

5.30 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. | 958.333 |
| (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. | 702.361 |
| (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. | 255.972 |

5.31 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.

5.32 The context in which Members are setting the budget for 2008/09 has been made difficult by the various budget pressures faced 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 lower grant increases in future years as part of the 2008/09 to 2010/11 local government finance settlement. The council's current financial standing is strong – with the Audit Commission recently awarding top marks (Level 4) in its Use of Resources judgement on financial standing – but the challenge will be to maintain this given the financial pressures faced in 2008/09 and future years. The council will therefore need to ensure the continuing effectiveness of its financial controls and a continuing commitment to delivering improvements in the cost effectiveness of services.

5.33 Members have a range of options available to them:

- a. they could increase the budget and council tax to invest in service priorities or remove savings items (whilst bearing in mind the potential for capping);
- b. they could agree the budget as set out in the report;
- c. they could agree further savings (provided they are satisfied that they can be achieved) 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.

5.34 Table 5.5 below sets out the implications for council tax of an increase (up to 5%, which has been the capping limit in previous years) or reduction in Brent's expenditure compared with the current budget. This incorporates the GLA precept of £309.82 for 2008/09 agreed at the Assembly meeting on 13th February 2008.

Table 5.5 Impact of Changes to Budget Requirement on Council Tax

| | | 2007/08 Budget | 2008/09 Proposed Budget | Expenditure - £1m | Expenditure + £1.159m – up to 5% increase in CT |
|----------------------------------|---|---------------------------|--|------------------------------|--|
| Brent's budget requirement (£m) | | 242.890 | 255.972 | 254.972 | 257.131 |
| Council Tax Band D | £ | 995.58 | 1,033.11 | 1,022.54 | 1,045.36 |
| GLA precept | £ | 303.88 | 309.82 | 309.82 | 309.82 |
| Total Council Tax Band D | £ | 1,299.46 | 1,342.93 | 1,332.36 | 1,355.18 |

5.35 The table illustrates that each £1m fall in expenditure decreases the council tax increase by £10.57 (1.1%) at Band D for the Brent element of the tax. The maximum increase in spending, which would take the council to 5% which has been the capping limit in previous years, is £1.159m. A 5% increase would represent an addition of £12.25 at Band D.