# LONDON BOROUGH OF BRENT

# Meeting of Full Council - 3rd March 2008

# 2008/09 BUDGET AND COUNCIL TAX

## EXECUTIVE SUMMARY

1. The budget report sets out the key decisions Members are asked to make on:
   - the 2008/09 General Fund revenue budget;
   - the 2008/09 Schools Budget;
   - the 2008/09 Housing Revenue Account;
   - the council's capital programme for 2008/09 to 2011/12;
   - the council's treasury management strategy; and
   - prudential indicators aimed at ensuring the affordability of capital spending and a secure approach to borrowing and investment.
2. This executive summary covers the main items covered in each of the sections of the report.
3. *Section 1* introduces the report, with brief descriptions of what is covered in each of the other sections. It highlights the 2003 Local Government Act requirement for the Director of Finance and Corporate Resources to report on the robustness of the budget estimates and the adequacy of financial reserves.
4. *Section 2* details proposed recommendations to Full Council. These are cross-referenced to appropriate parts of the main body of the report. They include the statutory decisions Full Council is required to make on the overall budget requirement of the council, gross revenue expenditure and income, and the council tax calculation.
5. The General Fund budget making process, including its links with the Corporate Strategy priorities and the council's Medium Term Financial Strategy, is set out in *Section 3.* The previous year's Medium Term Financial Strategy had forecast tight resource constraints in future years and this was confirmed in the Comprehensive Spending Review and the subsequent local government finance settlement. This has meant that the council has had to focus on delivering the priorities in the Corporate Strategy by continuing to deliver in areas which had funding growth in 2007/08 - such as street cleaning, recycling, and additional police community support officers - protecting budgets in priority areas, using the planned roll-out of Neighbourhood Working and associated budgets to help meet locally identified needs, and using area based grant funding and joint work with partners to deliver improvements in cross-cutting areas. This section also sets out the underlying budget assumptions, the process for development of the proposals, including the role of members of the Executive and the Budget Panel, and the involvement of the public, businesses and council trade unions.

6. The 2007/08 probable outturn for the General Fund budget is covered in *Section 4.* Balances at the end of 2007/08 are forecast at £8.605m which is above the target range set in the 2007/08 budget report of £7.5m to £8m at 31st March 2008. The targets set for additional in-year savings in autumn 2007 are on forecast to be achieved in most service areas. The only area where there is considerable doubt about achievement of this additional target is adult care where there continues to be an underlying mismatch between budgets and increasing client numbers from past periods and hence spending on placements and income coming into the service. Children's services are expected to overspend because 'invest to save' initiatives have not delivered the full saving hoped for in 2007/08 but the prospects are promising with a continuing downward trend in the cost of looked after children. The overspends in adults' and children's services are offset by forecast under-spends in other services and central items. The two significant area of risk that remain are on-going discussions with the PCT about back-dating of transitions and uncertainty about Local Authority Business Growth Incentive (LABGI) funds where the government has decided recently to review the basis for the scheme and is refusing to give guarantees about the funds that will be provided to local authorities in 2007/08.

7. *Section 5* deals with the key spending decisions. The recommended overall budget for 2008/09 is £255.972m, which, after taking account of the GLA increase agreed on 13th February 2008, would lead to an overall increase in council tax in 2008/09 of 3.3%.

8. The key decisions Members need to take on the 2008/09 General Fund budget are as follows:

   - Agreeing or varying the service area budgets for 2008/09, which are detailed in Appendix C, incorporating growth and savings outlined in Appendix D;
   - Agreeing or varying the overall budget for service areas in 2008/09 which this report recommends should be set at £234.186m;
   - Agreeing or varying the budget for central items which is set at £38.658m for 2008/09, and is detailed in Appendix F;
   - Agreeing or varying the use of balances figure of £1.105m in 2008/09;
   - Agreeing or varying the overall budget requirement, after taking account of Area Based Grant of £15.767m, of £255.972m for 2008/09.

9. In making decisions on the budget, Members have to consider the extent to which the proposed budget supports delivery of corporate and service objectives, the consequences of agreeing or not agreeing budgets at the recommended level for services and council tax payers, and the realism of, and risks associated with, the budget.

10. Members also have to consider the impact of the budget on individuals and communities in Brent. The priorities within the Corporate Strategy reflect the needs and aspirations of the diverse communities and individuals within Brent. Budget proposals are also screened individually by service areas to assess whether they have equalities implications. But Members also have to ensure the budget as a whole does not discriminate against communities or individuals because of age, ethnicity, gender, disability, religion, or sexual

orientation, and meets the council's other duties to promote equal opportunities and good race relations.

11. A key new element of the budget for 2008/09 is the introduction of the Area Based Grant. This brings together a number of grants which were previously treated as individual specific grants, with central government specifying how they could be used. In the case of the Area Based Grant, it is for the authority to decide how the funding is allocated, tied in with priorities set out in the Local Area Agreement. The introduction of the Working Neighbourhoods Fund as part of the Area Based Grant, increased funding for young people, and the allocation of additional resources to community safety has enabled the council to target resources at delivering some its key priorities – regeneration, improved services for young people, and community safety.

12. The full range of budget risks is also outlined in *Section 5.* On the basis of an assessment of the worst case impact and likelihood of this happening, overall revenue budget risks to the council in 2008/09 are assessed at £7.4m. The most significant risks for 2008/09 are:

- uncertainty about Local Authority Business Growth Incentive funds, for which estimated income carried forward from 2007/08 of £1.5m has been included;
- maintaining adults' care spend within budget given uncertainty about transfers of continuing care cases from the Primary Care Trust, unresolved issues about learning disability clients currently funded by the PCT, and the speed at which adult care transformation projects can be delivered;
- the ability of the 'invest to save' programme in children's services to continue to reduce the cost of children's placements; and
- the potential impact of single status discussions and equal pay claims on staff costs.

13. The assessment of risk forms the basis for assessment of balances required. The advice of the Director of Finance and Corporate Resources on balances is as follows:

- The minimum prudent level of balances in 2008/09 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.

14. Members should note that the budget proposals in *Section 5* include a recommendation to use £1.105m of balances to fund the budget in 2008/09, and that the impact of this on future years' budgets has been built in to the Medium Term Financial Strategy in Section 7.

15. The resources to fund the General Fund budget are set out in *Section 6*. Overall the council will receive Formula Grant (which excludes Area Based Grant and other specific grants) of £159.404m in 2008/09, which is 2% higher than in 2007/08 after taking account of adjustments to the base for grants added. The council will remain at the grant floor in 2009/10 and 2010/11 with increases of 1.75% and 1.5% respectively.

16. The council tax income requirement is £97.717m. This is based on the proposed budget requirement of £255.972m, less grant of £159.404m, with £1.149m added for Brent's share of the Collection Fund deficit. Using the council tax base of 94,585 Band D equivalent properties agreed by Full Council on 21st January 2008, the Band D Council Tax for Brent services would be £1,033.11 in 2008/09. This is a 3.8% increase compared to the 2007/08 Band D council tax for Brent services of £995.58.

17. The government does not announce capping levels in advance. However, there have been indications from ministers that the capping level may be below the 5% benchmark used in previous years. It is unlikely however that a below inflation increase in the Brent element of the council tax of 3.8% would be capped. In addition, the proposed Band D council tax of £1,033.11 is likely to remain below the median for London.

18. Council tax payers in Brent also have to fund the GLA precept, which covers the Metropolitan Police, the London Fire and Emergency Planning Authority, Transport for London, the Olympics levy and the GLA itself. The Greater London Assembly meeting on 13th February 2008 agreed a precept at Band D of £309.82 in 2008/09, an increase of 2.0% compared to 2007/08.

19. Based on the Mayor's proposed increase, and the 3.8% increase proposed for Brent Council services, the overall council tax at Band D in Brent would be £1,342.93 in 2008/09, 3.3% higher than in 2007/08.

20. *Section 7* of the report sets out the council's medium term financial strategy (MTFS) and is the last part of the report dealing specifically with the General Fund. The three year settlement for 2008/09 to 2010/11 provides certainty about resources available to the council in future years, albeit that the increase in resources is less than the spending pressures the council will have to meet.

21. The principal growth pressures for future years are the effect of population growth, increased pressure on social care budgets, the costs of land-fill, expected changes to the basis on which boroughs will be charged for concessionary fares, and expected changes to the basis on which the government will subsidise temporary accommodation costs.

22. The council will be seeking to offset the shortfall in funding growth to meet these budget pressures by delivering its efficiency programme. Budget savings of 3% each year have been built into service area cash limits for future years. These reflect the targets set by central government for efficiency savings in the public sector. They will represent a major challenge particularly as a significant proportion of costs are outside the control of the council – for example, levies are set by outside bodies over which the council has no direct control, savings on external contracts can only be made when contracts come up for renewal etc. Details of how it is planned to deliver efficiency savings are set out in Section 13 of the report on Value for Money

(see below). The council will also need to review opportunities for delivering additional income through its income optimisation strategy based on work carried out for the council by PricewaterhouseCoopers and the recent national study by the Audit Commission on maximising the benefits of public service charges.

23. Decisions on council tax in future years will reflect Members' aspirations to limit the increases. Even if Members were inclined to increase council tax, the maximum permitted under capping rules is likely to remain at 5% or less in future years. The MTFS sets out a resource envelope within which spending would need to be constrained using a range of assumptions about council tax rises.

24. The council's thirty year financial plan has also been up-dated following the announcement of the results of the Comprehensive Spending Review. The council uses this as part its approach to assessing the longer term impact of borrowing to fund investment in council assets as part of the prudential borrowing framework for local government.

25. *Section 8* of the report deals with the Schools Budget. This is funded by a ring-fenced Dedicated Schools Grant (DSG) which can only be used to fund the Schools Budget. DSG allocations for 2008/09 to 2010/11 were announced following the Comprehensive Spending Review. Brent historically spent below the amounts earmarked by government for schools and, since its introduction, DSG for Brent schools has increased faster than the average for England in order to catch up. In 2008/09, the increase in per pupil funding is 5% compared to 4.6% nationally. The indicative per pupil increases are 4.3% (compared to a national average of 3.7%) and 4.7% (compared to a national average of 4.3%) in 2009/10 and 2010/11 respectively. Details of the proposed allocation formulae and costs that will be charged to central items within the Schools Budget, which have been subject to consultation with the Schools Forum, were included in a report to the Executive on 11th February 2008.

26. The Housing Revenue Account, which covers the activities of the council as landlord for approximately 9,500 dwellings, is dealt with in *Section 9*. 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. An average rent increase of 5.16% for 2008/09 was agreed by the Executive on 11th February 2008. The increase takes account of the government's guidelines on convergence between rents charged by councils and Registered Social Landlords (mainly housing associations). Whilst the Executive agree the rent increase, the overall HRA budget is part of the overall budget decision taken by Full Council on 3rd March 2008.

27. The council's overall capital programme for 2008/09 to 2011/12, together with the revised 2007/08 programme, is dealt with in *Section 10.* It is a four year rolling programme, based on the agreed Capital Strategy. It balances the need to deliver the council's priorities as set out in the Corporate Strategy, requirements to manage and maintain the council's existing assets, and the need to limit the impact of borrowing on the revenue budget both in the short and the longer term. The overall capital programme has been set at £103.7m in 2008/09, with £89.3m spent on General Fund assets and £14.4m on HRA

assets. The proposed programme includes £25m to enable the council to secure property needed to deliver its accommodation strategy in the lead up to the development of the new Civic Centre. Property secured in this way will be on a self-funded basis – with revenue costs offset by reduced leasing costs or additional rental income – and will be subject to a report to the Executive in advance of any property purchase. Levels of borrowing – other than self-funded borrowing - have been maintained marginally below previous levels over the period of the programme. The capital financing charges on borrowing have been allowed for in the central items in the proposed General Fund revenue budget in Section 5 and the impact in future years is allowed for in the MTFS in Section 7. Section 10 also sets out the main risks within the capital programme.

28. The treasury management strategy is set out in *Section 11*. The council has total borrowing of around £620m and total investments of around £100m. Borrowing may rise to around £650m in 2008/09 in order to fund the capital programme and enable property to be purchased as part of the accommodation strategy as set out above. The treasury management strategy is aimed at managing this portfolio in such a way as to minimise borrowing costs, maximise investment returns, and minimise risk. It is based on an assessment of the state of the economy over the next year and the prospects for interest rates. It sets out various interest rate scenarios and the actions that will be taken in response to these. The strategy has been prepared in consultation with our treasury advisers, Butler's.

29. Adoption of the treasury management strategy by Full Council is seen as good practice and is one of the prudential indicators set out in the CIPFA Prudential Code for Capital Finance, which is covered in *Section 12* of the report. The Prudential Code was introduced in 2003 as part of the reforms to the local government finance system resulting from the Local Government Act 2003. The LGA 2003 gave councils significant freedom to exercise borrowing powers to meet local needs for capital investment. The aim of the Code is to ensure councils use these freedoms responsibly. It requires councils to set affordability limits on the amount of borrowing for capital purposes, to be clear about the impact on council tax and rents of their borrowing policy, to manage their borrowing and lending in a professional way, and to ensure value for money from the use of borrowing to fund capital investments.

30. *Section 13* provides details of the council's approach to delivering value for money. The council has been successful at meeting government targets for efficiency savings, including the efficiency target set under the first round of the Local Public Service Agreement process and the Gershon target for efficiency. In their Use of Resources judgements, the Audit Commission has given a score of 3 out of 4 on value for money provided by the council and the council's approach to delivering improvements in value for money.

31. The major challenge the council faces over the next three years is continuing to improve value for money. In determining the amount of money available to local government over the next three years, the government has assumed that councils will deliver cashable efficiency savings of 3% each year over the next three years. For Brent Council, which is at the grant floor, the challenge is even greater. If the council wants to continue to improve services and

deliver priorities within the Corporate Strategy, it has to deliver on its efficiency programme.

32. A new Efficiency Strategy, which set out the framework within which efficiencies would be delivered within the council, was agreed at the Executive in April 2007. There are major transformational projects within customer care, adult care services, and children's care services aimed at providing better services at less cost. The children's care transformation programme has already delivered reductions in the number and cost of children coming into care. The customer care programme will help reduce the number of times people have to contact the council unnecessarily and the adult care programme will increase choice and control by adult care clients. The information technology infrastructure within the council is being improved which will allow more efficient working practices. Human resources transactions, such as recording sickness, are being automated, leading to efficiencies in the People Centre and other parts of the organisation. Purchasing costs are coming down as a result of procurement improvements – for example, e-auctions for personal computers and servers and consolidation of suppliers for major areas of spend.

33. *Section 14* deals with the procedures required to control expenditure. This includes setting out roles and responsibilities, the arrangements for monitoring spending, and the approach to controlling the budget. The council needs to maintain spending within budget to ensure delivery of corporate and service priorities. The arrangements set out in *Section 14* seek to ensure this happens.

34. Setting the budget and council tax is one of the most important decisions Members take during the year. Decisions can affect the services received by the people of Brent and the level of council tax they pay. The legal basis on which the budget and council tax is set is also carefully defined in statute. *Appendix O* sets out advice from the Borough Solicitor on Members' individual responsibilities to set a legal budget and how they should approach this task. It is important that all Members read this advice carefully before taking part in decision making on the 2008/09 budget.