

**LONDON BOROUGH OF BRENT**  
**MEETING OF THE EXECUTIVE - 23<sup>rd</sup> JUNE 2003**  
**REPORT FROM THE DIRECTOR OF FINANCE**

**BUDGET PROCESSES FOR 2004/2005**

**1. PURPOSE**

- 1.1 The report explains changes to the legislation currently being considered by Parliament, and the implications this will have for the way that the Council will need to consider budget and Council Tax setting procedures for 2004/5 and beyond.

**2. RECOMMENDATIONS**

- 2.1 The Executive is recommended to:

- (a) Note the report and in particular the implications of changed legislation on budget processes set out in 6.4 and 7.3.
- (b) Note the threats to the implementation of the Prudential Capital control system set out in 6.6 to 6.8.
- (c) Agree that Brent proceeds to prepare budgets on the assumption that the prudential regime is implemented, but also prepares to allocate resources as in the past in the event that the new regime is not implemented in 2004/5 or is implemented with a "National Limit" imposed.
- (d) Note the likely requirement to provide a written statement on adequacy of balances and robustness of budget calculations for each motion to Council at the Council Tax setting meeting and the implications for existing custom and practice (7.3)

**3. FINANCIAL AND STAFFING IMPLICATIONS**

- 3.1 There are none arising directly out of this report.

**4. LEGAL IMPLICATIONS**

- 4.1 The process for the development and adoption of budget proposals is set out in Standing Orders 24 and 25 and is reflected in the timetable in 5.1 below. Under Standing Order 25 the Overview Committee will normally have 3 weeks to respond to the Executive following the First reading Debate.

## **5. BACKGROUND**

- 5.1 Within Brent the constitution sets out the formal process that has to be followed in setting budgets and Council Tax for the following year. The main elements of this are:
- (a) In the Autumn (probably November), the Council has a “first Reading Debate” on the budget based on an information report provided by the Director of Finance and the Executive.
  - (b) Overview Committee then considers the report presented to the first reading debate, together with comments made at the debate, and makes observations and recommendations to the Executive.
  - (c) In early February, the Executive agrees its final proposals for the budget and Council Tax level for the following year.
  - (d) The Performance and Finance Select Committee considers the Executive report in order to ask questions of the Executive and Officers and to make recommendations to Full Council.
  - (e) In early March, Council considers the Executive report and typically motions from each Group and sets the budget and Council Tax for the following year.
- 5.2 In addition to this process, the Executive may from time to time issue instructions to Officers about the work they need to carry out to support this process. This is likely to include instructions about how to prepare Service Development Plans, options for savings and growth and indicative cash limits.
- 5.3 The Local Government Bill currently being considered by Parliament and the recently amended Accounts and Audit Regulations may change the legislative context in which the budget is set. In particular the most significant potential changes are:
- (a) Abolition of the system of “Credit Approvals” and borrowing controls and the introduction of a “Prudential Code” to govern limits on Capital Investment.
  - (b) A requirement on the Chief Finance Officer to provide Council with a written assessment of the adequacy of balances and the robustness of budget calculations prior to the setting of the Council Tax.
- 5.4 The following sections consider the implications of these changes for the Council’s budget process.

## 6. THE PRUDENTIAL CODE

- 6.1 The proposed legislation abolishes credit controls and effectively allows local authorities to determine their own limit on borrowing for capital purposes. Each Local Authority will be required (as part of its budget setting process) to determine a prudential limit on its borrowing for the following year. The way in which the Local Authority has to come to this decision is governed by a "Prudential Code", which will be prepared by CIPFA but which will in effect have statutory force.
- 6.2 CIPFA issued in March a second exposure draft of the Prudential Code. This set out a range of factors the Local Authority must consider before determining its borrowing limit. The most important and critical factors are:
- (a) Capital and revenue expenditure plans need to be developed for at least a three-year period.
  - (b) An "Affordability" test has to be applied, which in particular means that estimates of Council Tax and rent levels need to be made for at least the three year period.
  - (c) Considerations must be made of "Prudence and Sustainability" which partly implies that consideration is given to financing costs over a longer period than three years.
  - (d) Value for money (or option appraisal), stewardship of assets, strategic service objectives and practicality all need to be considered and taken into account.
- 6.3 Under the new system, separate assessments need to be carried out and separate borrowing limits set for assets acquired for the Housing Revenue Account (HRA) and the General Fund. The level of capital expenditure for each fund will be determined by separate considerations of affordability, prudence and sustainability. This is a significant change from the current system where the overall borrowing limit is set by Central Government and Local Authorities have to decide the split in borrowing between the two funds.
- 6.4 The new system may be operational from 1<sup>st</sup> April 2004, and so the Council needs to take it into account for budget planning in the current year. The main implications are:
- (a) The need to consider allocation of resources for capital and revenue at the same time. In particular this means converting capital growth bids into revenue terms.
  - (b) The need for the budget report and **any proposed amendments to it** to assess the level of Council Tax not only for the forthcoming year, but also the two subsequent ones.

- (c) A requirement for the Director of Finance to prepare a longer-term business plan (say over 30 years) to demonstrate long term sustainability of capital plans and asset management.
- 6.5 These implications will not require any change to the formal budget making processes. However, it is important to note the implication for motions amending the main budget report. They will need to consider and take into account the affordability of plans for three years rather than just one.
- 6.6 There is a considerable risk that the new capital control regime will not be implemented or will be implemented in a substantially compromised form in 2004/5. The threats to implementation arise from an inability by government to have the necessary regulations in place in time or by the use by government of their reserve powers.
- 6.7 The government had intended to circulate draft regulations by now, but none have been forthcoming. Unless they are prepared and circulated for comments in the near future, it will be difficult for Local Authorities to properly prepare for implementation of the new system by April 2004. There is therefore a significant risk that implementation will be delayed by a year for this reason.
- 6.8 The much more important threat to the new system is the possible use by government of their reserve powers. These take two forms. The first is an ability to intervene in respect of any Authority which is in effect abusing the new system and ignoring the Prudential Code. This would be a reasonable use of the powers and is not controversial. More importantly, the Government has the power to impose a "National Limit" divided up between each Authority which will over-ride any local determined "Prudential Limit", if it is in the national interest to do so. There is a real possibility that the government will regard its capital planning total as the most that can be afforded in National terms, and will therefore impose a National Limit on each Authority. This would wholly negate the purpose of the scheme and in effect return to the rationing of capital spend that Local Authorities suffer from at present.
- 6.9 Should either threat materialise, the Council would have resort to the previous methods of allocating capital spend. The proposal is that for the time being Brent proceeds on the assumption that the Prudential system will be implemented in an unfettered way, but also prepares to allocate resources as in the past should the need arise.

## **7. ADEQUACY OF BALANCES AND BUDGET CALCULATIONS**

- 7.1 The Local Government Bill contains proposals for the Chief Financial Officer to provide the Council with a report on the adequacy of the provision for balances and the robustness of budget calculations at the time it sets its budget. It is implicit that this obligation already exists and budget reports have always been prepared with these issues in mind. However, the statutory obligation may change how the Council considers motions to amend the budget.

- 7.2 In the past, the Director of Finance and his staff have assisted the different Groups prepare motions for the Council meeting. That help has included an evaluation of the robustness of budget proposals as well as consideration of the level of balances. It has been implicitly assumed by all sides that motions tabled on the night of the Council Tax setting meeting have been properly appraised in this manner, but there has been no explicit assessment.
- 7.3 The Director of Finance's view is that such an informal approach will be inadequate under the new law. He believes that as a minimum, he will need to prepare a statement to accompany each motion. In order to do this he will need to see the final version of proposed motions at least three working days before the Council Meeting on the assumption that it will be in order to table such statements at the Council Meeting. He would want an opportunity to discuss these statements with the proposer of any motion before the meeting so as to give each side an opportunity to make amendments before the meeting itself. The Director of Finance will discuss this issue further with Group Leaders later in the year.

## **8. BACKGROUND INFORMATION**

- CIPFA Prudential Code for Capital Finance in Local Authorities – Second Exposure Draft. March 2003.
- Local Government Bill 2003 (Various Drafts).

**STEPHEN HUGHES**  
**Director of Finance**