

SECTION 4

4. THE 2011/12 REVENUE BUDGET REQUIREMENT

Introduction

- 4.1 This section sets out the proposals for the 2011/12 General Fund revenue budget. These form the basis for delivering the Council's priorities in the context of the Medium Term Financial Strategy.
- 4.2 In her report to the First Reading Debate at Full Council on 22 November 2010, the Leader of the Council stated that the key priority of the Administration for 2011/12 will be to continue to deliver essential services whilst also delivering a balanced budget. The Council would therefore be looking for savings through the One Council Programme and by undertaking a fundamental review of all its activities.
- 4.3 This budget seeks to enable the delivery of the Borough Plan to:
- a. Supporting regeneration and the economy of the Borough;
 - b. Prioritising support to protect the most vulnerable of our residents;
 - c. Making residents' neighbourhoods cleaner, safer and greener;
 - d. Developing a more strategic relationship with local partners and neighbours;
 - e. Recasting our services to fit within the financial realities.
- 4.4 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. Members will need to take account of:
- a. The balance between spending and council tax;
 - b. The deliverability and impact of budget savings proposals;
 - c. The adequacy of budget provision for central items;
 - d. The sustainability of the overall budget in the current year, including consideration of risks and the appropriate level of balances; and
 - e. The sustainability of the overall budget in future years, taking account of future commitments, the delivery of Borough Plan priorities, and the likely availability of services.
- 4.5 Under the Local Government Act 2003, the Chief Finance Officer of the authority (in Brent's case, the Director of Finance and Corporate Services) 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 Services and have been through a robust process of development and challenge. The Director of Finance and

Corporate Services is therefore confident about the robustness of the estimates. In addition, the minimum level of balances recommended for 2011/12 of £9.5m is, in the Director of Finance and Corporate Services' view, sufficient to allow for the risks identified and to support effective medium term financial planning.

4.6 This section of the report sets out:

- Underlying budget assumptions in 2011/12 budget
- Process for developing the proposals
- Involvement of public and other stakeholders
- Movements since the First Reading Debate;
- Service area budgets;
- Provision for central items within the budget;
- The main risks within the budget;
- The overall budget requirement
- The level of balances Members are recommended to agree; and
- The statutory calculations required for gross expenditure, income, and overall budget requirement.

4.7 The budget requirement that results from the proposals in this section is £267.889m (see Appendix B). After allowing for Brent's share of the deficit in the Collection Fund of £1.006m, this would produce a Council Tax at Band D for Brent services of £1,058.94, which is the same as for 2010/11. Details of the council tax calculation, and the GLA precept, are given in Section 5 below.

Underlying budget assumptions used in the 2011/12 budget process

4.8 The underlying assumptions in the budget are as follows:

- Pay inflation of £250 for those staff earning under £21k has been incorporated in the budget. The employer's contribution to pensions is anticipated to increase to 25% of pensionable pay in 2011/12 as this is the first year based on the actuary's valuation of assets and liabilities as at 1 April 2010.
- No general allowance has been made for price inflation in 2011/12. Instead specific provision has been made for contractually committed price increases on a case by case basis.

The process for developing the proposals

4.9 Proposals in this budget have been developed by the members of the Executive, taking account of the advice of officers. The key processes for doing this are as follows:

- Development of the budget approach, based on the Borough Plan and the updated medium term financial outlook which was considered by the Executive in July 2010;
 - Away-days involving both Executive and Corporate Management Team members to consider the key service and budget issues likely to affect the council in future years;
 - Development by officers, in consultation with relevant Lead Members, of budget proposals for individual services within the context of the Borough Plan and the MTFS;
 - A process of challenge of budget proposals through Star Chambers involving the CMT members and the Leader and Deputy Leader;
 - A process of external consultation with residents and businesses;
 - Agreeing the publication of the detailed budget proposals in this report.
- 4.10 Full Council held the First Reading Debate on 22 November 2010 which was informed by a report from the Leader of the Council setting out the priorities of the Administration and a report from the Director of Finance and Corporate Services setting out budget projections and options. The minutes of that meeting are attached as Appendix E(i) to this report.
- 4.11 The Budget and Finance Overview & Scrutiny Committee has met on a number of occasions during the budget process. All Members have been invited to a session of the Committee on 9 February 2011 where there is the opportunity to pose questions to the Deputy Leader and Lead Member for Resources on the proposals in this report. The first interim report of the Budget and Finance Overview & Scrutiny Committee is attached as Appendix E(ii). In addition, the Director of Finance and Corporate Services has made presentations on budget issues to individual groups.
- 4.12 Other decisions have been made on items that have been taken into account in these budget proposals. The Executive on 15 December 2010 agreed the 2010/11 balance on the Collection Fund and General Purposes Committee on 25 January 2011 agreed the council tax tax-base for 2011/12 – both of these decisions are taken into account in the council tax calculation in Section 5 below.
- 4.13 Decisions of external bodies affect the budget process. The government confirmed the final grant settlement for 2011/12 on 31 January 2011, which was unchanged from the provisional settlement in December. Levying bodies, including the West London Waste Authority, have confirmed their levies and these are taken into account in central items included in Section 5 of this report. The precept for the GLA will be confirmed by the Greater London Assembly on 23 February 2011.

Involvement of the public and other stakeholders

- 4.14 There have been a number of ways in which the council has sought to obtain views of the public and other stakeholders to inform budget decisions. These

include the use of results from the residents' attitude survey and user satisfaction surveys and through area consultative forums and service user forums.

- 4.15 Residents' surveys have provided a consistent picture of the public's key priorities. The most recent residents' attitude survey was carried out in 2009 and the top five issues were unchanged from the previous survey in 2005, albeit the ranking of those five had changed slightly:

Issues making somewhere a good place to live

1. Levels of crime (ranked 1 in 2005)
2. Clean streets (3)
3. Health services (4)
4. Shopping facilities (5)
5. Public transport (2)

Priorities for improvement

1. Levels of crime (1)
2. Activities for teenagers (4)
3. Road/pavement repairs (3)
4. Clean streets (2)
5. Traffic congestion (5)

- 4.16 Summary details of budget issues have been sent to local businesses and the Leader explained the budget issues to the area consultative forums held during January and February. Issues discussed at these meetings included the One Council Programme, the consultation on changes to the library service, support to voluntary organisations, the Council's procurement arrangements and the Civic Centre.
- 4.17 Managers and staff are kept informed about the overall budget situation through regular up-dates at the quarterly Senior Management Group events and in the Chief Executive's Bulletin.

Movements since the First Reading Debate

- 4.18 The First Reading Debate report of the Director of Finance and Corporate Services to Full Council on 22 November 2010 set out progress on the budget. The projected budget gap for that stage was £36.7m. After taking account of further savings of £20.8m from the One Council Programme this left a residual gap of £15.9m.
- 4.19 The report also set out a series of measures aimed at reducing the projected budget requirement. Details of the progress that has been made are set out below:

a. Surplus/deficit carried forward from 2010/11

The First Reading Debate report highlighted a forecast overspend of £7.1m for 2010/11. As highlighted in Section 3 robust actions have reduced the forecast overspend to £294k. This means that balances at 31 March 2011 are expected to be £7.261m, £239k less than the original forecast.

b. Service area cost pressures

Total service area cost pressures of £12.6m have been funded within the budget. These are detailed in Appendix D(i) and include:

- Adult Social Care (£3.5m)
- Concessionary Fares (£2.1m)
- Children social care placements (£1.8m)
- Housing Benefit related costs (£0.9m)
- Carbon Tax (£0.4m)

A central provision of £2m is being held to cover demand led pressures that exist but where the actual impact in 2011/12 is still uncertain. This covers legal costs in Children's Social Care, changes to the housing benefit system and the transition of social care clients from Children's to Adult Social Care.

c. Fees and Charges

The 2011/12 budget includes a total of £4.355m from additional income needed to meet the Council's policy objectives and offset its costs. Details are in Table 4.1 below.

Table 4.1

Income item	Additional income £'000
Emission based charging for parking permits – agreed by the Executive in August 2010	1,100
Fixed Penalty Notices from Moving Traffic Contraventions – agreed by the Executive in June 2010	273
Fees and charges increases agreed at the Executive on 13 th December 2010	1,279
Removal of anomalies on parking charges – there are currently a number of on-street parking bays in the borough	283

for which no charges are made. There will be a report to Highways Committee proposing removal of these anomalies. Implementation will occur following issue of necessary traffic orders.	
Adult social care income – this results from (a) the impact of inflation on means tested contributions to the cost of residential and home care packages; (b) a 7% increase in the charge for clients in bed and breakfast and group homes. The council is also reviewing its charging policy as part of the wider move to personalisation of services. Consultation on the proposed changes will be issued shortly.	660
Housing increases as follows: 1. From 1 April 2011, the charge that the council makes when it acts as agent for people procuring building works funded from grant will increase as follows: a. Empty Property Grant – from £500 plus VAT to £550 plus VAT; b. Disabled Facilities and Small Works Grants – from 15% to 17.5% of contract value with the minimum charge of £50 plus VAT increasing to £55 plus VAT. 2. From 18 April 2011, there will be an inflation linked increases in the Lynton Close Travellers' Site licence fee from £220.56 per week to £231.15 per week.	40
School improvement services – This is a combination of increasing income from schools for buy-back of the School Improvement Service and fully recovering the costs of the music serviced.	720
Total additional income in the 2011/12 budget	4,355

d. One Council Programme

The One Council Programme, which was launched in 2009, fundamentally changes the way the council carries out its business. The aim of the Programme is to do things differently and better. The Programme is delivering 60% of the savings required in the budget in 2011/12 and the aim is that existing and new projects deliver a significant proportion of additional savings required from 2012/13 onwards.

The scale of savings required means that disciplined approaches are needed to ensure that projects deliver the level of savings required of them on time. The One Council Programme provides a robust framework to deliver complex change quickly and effectively.

A total of £10.937m has been taken out of cash limits in 2010/11 to reflect savings from the One Council Programme. Other savings, such as £1m from

the Customer Journey project in Adult Social Care, have reduced overspends in departments.

In 2011/12, there is a total projected saving from One Council Programme projects of a further £23m. This includes the following:

- Wave 1 Staffing and Structure – a further £2.8m 2011/12 full-year effect saving on top of the £4.3m saving achieved in 2010/11;
- Wave 2 Staffing and Structure – a total of £4.4m in 2011/12 with additional savings in future years;
- The finance modernisation project - a further £1.1m 2011/12 full-year effect saving on top of the £0.4m saving achieved in 2010/11;
- Procurement – a total of £6.1m in 2011/12 with more expected in future years, including in particular savings on adult social care contracts, in the waste and parking contracts, through the printing contract, and from reduced cost of agency and contract workers;
- Review of fees and charges – additional income in excess of £4.0m in 2011/12;
- Review of employee benefits – a further £1.1m saving in 2011/12 (on top of a £1m saving in 2010/11) from removal of London weighting anomalies and further measures to reduce overtime and rationalise allowances;
- Children’s social care transformation – a £1.8m saving in 2011/12 from a range of workstreams aimed at ensuring that the children’s placements budget is spent effectively;
- Adult Social Care projects including the Customer Journey and Learning Disability Day Services – a further £0.7m in 2011/12 on top of £1m in 2010/11;
- Review of libraries – a part-year saving of £0.4m in 2011/12;
- Waste management and street cleansing - £0.5m in 2011/12 with further savings in future years.

Other projects in the Programme are expected to deliver savings in future years. For example, part-year savings in 2011/12 from the Future Customer Services projected are expected to be matched by implementation costs but, in future years, savings of £3.5 per annum are expected from this.

Where savings can be identified to departments, they have been taken out of departmental cash limits. This is the case for most of the One Council savings. Delivery of the savings will be monitored as part of normal budget monitoring procedures but also by the One Council Programme Board, chaired by the Director of Strategy, Partnerships and Improvement, which receives fortnightly updates on progress on projects and their delivery of benefits.

e. Savings identified for 2011/12

Including the additional income and savings from the One Council Programme highlighted above the Council's budget contains overall savings proposals of £41.7m or 15.3% of service area budgets.

Further to the income and One Council savings, the budget also includes the following service area savings for 2011/12:

- Early years provision and Children's Centres (£2.25m)
- Children's Social Care restructuring (£1.3m)
- Adult Social Care – Mental Health Services (£1.25m)
- Housing – Supporting People contracts (£1.2m)
- New Revenues & Benefits IT contract (£1.2m)
- Brent in2 Work (£0.7m)

A full schedule of the savings from additional income, the One Council Programme and service area savings is set out in Appendix D(ii).

f. Central Items

Since the first reading debate the forecasts for central items have been reviewed. A number of budgets have been reduced to reflect updated information on levies and subscriptions and the capital financing forecast has been revised to reflect the proposed capital programme.

Where appropriate a number of budgets held centrally have been transferred to service areas including the budgets for ward working and IT.

The most significant change has been to make provision of £6.4m for the redundancy and restructuring costs that the Council will face in 2011/12 as part of delivering the £41.7m of savings referred to above.

2011/12 Service Area Budgets

4.20 Table 4.2 below summarises the changes in budget at service area level between 2010/11 and 2011/12.

Table 4.2 Service Area Budgets

	2011/12 Revised Base Budget £'000	Cost Pressures		Savings		2011/12 Draft Budget £'000
		£'000	%	£'000	%	
Children and Families	67,672	2,100	3.1	(12,069)	(14.7)	57,703
Environment and Neighbourhood	52,692	641	1.2	(10,766)	(19.2)	42,567
Housing and Community Care:						
- Housing	25,967			(2,876)	(11.1)	23,091
- Adult Social Care	96,305	5,638	5.9	(9,582)	(4.1)	92,361
Regeneration & Major Projects and Central Units	29,639	1,791	6.0	(6,423)	(21.7)	25,007
Total Service Area Budgets	272,275	10,170	3.7	(41,716)	(15.3)	240,729

Member decisions on service area budgets

4.21 Members are asked to agree the service area budgets set out in Table 4.2 above and detailed in Appendix C.

Central Items

4.22 Central items are items not included in individual service cash limits. The total of central items is £46.170m in 2011/12. Further details of the items are included in Appendix F.

Member decisions on Central Items

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

Risks

- 4.24 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.
- 4.25 The categories which the council uses to assess its budget risks are set out below:
- 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. There are also likely to be more general demand risks associated with the ongoing impact of the recession such as increased pressure on the housing benefit service;
 - b. risks from new legislation or other statutory changes, where there is some uncertainty about impact on council costs. The key risk relates to the changes to the Housing Benefit system and the potential impact on Housing and other services across the Council.
 - c. risks from legal challenges;
 - d. treasury management risks. Although the council has started to receive payments in respect of the Icelandic deposits this remains a major risk. There is also the risk of increased borrowing costs should long-term interest rates rise;
 - e. procurement risks. These risks should be reduced as a result of the current market situation with opportunities to secure savings through procurement ;
 - f. pay risks. Each 0.5% above the amount provided for would cost the council £0.6m;
 - g. grant risks. These include risks arising from changes to grant conditions, the council not meeting grant conditions, or uncertainty about the amount of grant the council will receive. An on-going risk area is the council's housing benefit subsidy claim which is by far the largest single grant claim the council makes;
 - h. risks of not achieving savings or income targets in the budget. The council has a good track record of delivering savings included within individual service budgets. However the scale of the savings being delivered in 2011/12 far exceeds that targeted previously. This provides a significant risk to the Council's financial position in the year ahead;
 - i. asset management risks if corporate or service buildings have to be closed because of current condition;
 - j. risks from natural disasters or terrorist attacks.

Risks to the capital programme are addressed in Section 9 below.

4.26 The risks are quantified in Table 4.3 below.

Table 4.3 Major Risks

	Potential Risk £'000	Likelihood %	Net risk £'000
<u>Demand risks</u>			
Adult care packages	3,000	20%	600
Children's care packages	2,000	20%	400
Waste	500	20%	100
<u>New legislation and other statutory changes</u>			
Housing Benefit Changes	3,000	20%	600
<u>Interest rate risks</u>			
Combined potential effect of reduced short term rates, additional borrowing requirement, and bank failure	5,000	10%	500
<u>Procurement risks</u>			
Risk that cost of social care placements may increase by more than the 1% allowed in the budget	700	20%	140
Energy risk – risk of increases in energy prices which cannot be contained in budgets	200	10%	20
Other procurement risks	300	10%	30
<u>Pay risks</u>			
Risk that pay increases are both those allowed for in the budget	500	20%	100
<u>Grant risks</u>			
Risk of exceeding the threshold on housing benefit overpayments in 2011/12	600	20%	120
Risk of amendments to housing benefit subsidy claim	1,500	20%	300
Risk of loss of income from other grant changes	500	15%	75
<u>Savings/income risks</u>			
Risk of not achieving savings in the budget	41,716	15%	6,257
Risk of loss of income from ongoing impact of recession	600	15%	90
<u>Asset management risks</u>			
Closure of council buildings and need to find alternative accommodation	500	10%	50
<u>Major disaster</u>			
The government has a scheme (the Bellwin scheme) that covers authorities for 85% of	500	30%	150

	Potential Risk £'000	Likelihood %	Net risk £'000
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 15% above it.			
Total General Fund revenue risks			9,532

Balances

- 4.27 As set out in Section 3, the council's General Fund usable balances are forecast to be £7.261m at the end of 2010/11.
- 4.28 Councils need balances so that they can deal with unforeseen calls on Services 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.
- 4.29 Balances can also contribute to effective medium term financial planning for councils. They allow councils to adjust to changes in Services and spending requirements over a period of time (see section 6 below for the Medium Term Financial Strategy 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.
- 4.30 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 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 given the tight financial settlements expected in future years and pressures to keep council tax increases down, including the threat of capping.
- 4.31 Under the 2003 Local Government Act, the Director of Finance and Corporate Services, as Chief Finance Officer (Section 151), has to be satisfied that the level of available General Fund balances is adequate. The Director of Finance and Corporate Services advises that:
- The minimum prudent level of balances in 2011/12 should be £9.5m, 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 £9.5m to £12.5m, 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 which cannot be funded from other sources;
- 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.

4.32 Table 4.4 below presents the proposals from the Administration on balances in 2011/12.

Table 4.4 Proposed General Fund Balances in 2011/12

	£'000
Total Estimated Balances at 31 March 2011	7,261
Proposed contribution from 2011/12 budget	2,500
Estimated Balances at 31 March 2012	9,761

Member decisions on balances

4.33 Members must decide on the contribution they wish to make to or take from balances in 2011/12 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 4.36.

Overall Budget Requirement

4.34 The overall budget requirement in 2011/12 resulting from the proposals in this section is £267.889m. The make up of this budget requirement is summarised in Table 4.5 (details in Appendix B).

Table 4.5 General Fund Budget Requirement in 2011/12

	£'000
Service area budgets	240,729
Non-ringfenced Grants	(25,999)
Central items	46,170
Inflation provision and growth and savings held centrally	4,489
Contribution to balances	2,500
Proposed budget requirement for 2011/12	267,889

- 4.35 The overall movement in the Council's total budget is summarised in Table 4.6 below

Table 4.6 Change in Budget Requirement 2010/11-2011/12

	£'000
Budget requirement 2010/11	265,469
add back budgeted transfer from balances	1,408
2010/11 budget before transfer from balances	266,877
add impact of loss/transfer of grants	25,792
add inflation	2,220
add other cost pressures	12,602
less change in central items	(386)
less service area savings	(41,716)
2011/12 budget before transfer to balances	265,389
Contribution to balances	2,500
Proposed budget requirement for 2011/12	267,889

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

- 4.36 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 £9.5m, which will cover the General Fund revenue budget risks identified. The Director of Finance and Corporate Services' 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 £9.5m to £12.5m. The Director of Finance and Corporate Services also advises that as a general rule use of balances should only be to cover one-off expenditure which cannot be funded from any other source. However, given that balances overall remain below the target level set for them it is proposed to increase balances by £2.5m in 2011/12, with the impact of this one-off use of balances taken into account in budget projections for future years in Section 6 below.

Member decisions on the overall budget

4.37 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.	1,018.921
(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.	751.032
(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.	267.889

4.38 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 5.

4.39 The context in which Members are setting the budget for 2011/12 has been made difficult by the various budget pressures faced and the scale of the reductions in local government funding. Moreover the prospects for future years, set out in detail in Section 6, are challenging both because of continuing budget pressures and the grant reductions expected in future years. The council's current financial standing is strong but the challenge will be to maintain this given the financial pressures faced in 2011/12 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.

4.40 Members have a range of options available to them which include:

- a. increasing budget spending and council tax to invest in service priorities or remove savings items (whilst bearing in mind the potential for capping and the loss of council tax grant);
- b. agreeing the budget as set out in the report;
- c. agreeing to seek further savings (provided they are satisfied that they can be achieved) in order to reduce council tax or increase reserves towards the upper end of the range indicated by the Director of Finance and Corporate Services.

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

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