

## **SECTION 4**

### **4. THE 2012/13 REVENUE BUDGET REQUIREMENT**

#### **Introduction**

- 4.1 This section sets out the proposals for the 2012/13 General Fund revenue budget. These form the basis for delivering the Council's priorities in the context of the Medium Term Financial Strategy (MTFS).
- 4.2 In the First Reading Debate at Full Council on 21 November 2011, the Leader of the Council identified the key priorities of the Administration as being:
- employment
  - neighbourhood services
  - services for young people
  - social care and health
  - regeneration
- 4.3 In order to deliver corporate and service priorities, the budget needs to be robust and sustainable. 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;
  - 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;
  - f. The equalities impact of spending and savings proposals.
- 4.4 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 of £12m 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.
- 4.5 The budget requirement that results from the proposals in this section is £260.392m (see Appendix B). After allowing for Brent's share of the surplus in the Collection Fund of £0.774m and formula grant, this would produce a

Council Tax at Band D for Brent services of £1,058.94, which is the same as for 2011/12. Details of the council tax calculation, and the GLA precept, are given in Section 5 below.

### **Underlying budget assumptions used in the 2012/13 budget process**

4.6 The underlying assumptions in the budget are as follows:

- No provision has been made for pay inflation in 2012/13. The employer's contribution to pensions is anticipated to increase to reflect the actuary's valuation of assets and liabilities as at 1 April 2010.
- No general allowance has been made for price inflation in 2012/13. Instead specific provision has been made for contractually committed price increases on a case by case basis.
- A general increase in fees and charges of 2%

### **The process for developing the proposals**

4.7 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 2011;
- 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 external consultation with residents and businesses;
- Agreeing the publication of the detailed budget proposals in this report.

4.8 The Budget and Finance Overview & Scrutiny Committee has met on a number of occasions during the budget process. All Members were invited to a session of the Committee on 8 February 2012 where there was the opportunity to pose questions to the Deputy Leader and Lead Member for Resources on the proposals in this report. The report of the Budget and Finance Overview & Scrutiny Committee is attached as Appendix E. In addition, the Director of Finance and Corporate Services has made presentations on budget issues to individual groups.

4.9 Other decisions have been made on items that have been taken into account in these budget proposals. The Executive on 12 December 2011 agreed the 2011/12 balance on the Collection Fund and General Purposes Committee on 24 January 2012 agreed the council tax base for 2012/13 – both of these decisions are taken into account in the council tax calculation in Section 5 below.

- 4.10 Decisions of external bodies affect the budget process. The government confirmed the final grant settlement for 2012/13 on 31 January 2012, which was unchanged from the provisional settlement in December. Notifications from levying bodies, including the West London Waste Authority, are taken into account in this report. The precept for the GLA will be confirmed by the Greater London Assembly on 9 February 2012.

### **Involvement of the public and other stakeholders**

- 4.11 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 user satisfaction surveys and through area consultative forums and service user forums.
- 4.12 Summary details of budget issues have been sent to local businesses and the Leader and Deputy Leader explained the budget issues to the area consultative forums held during January and February.
- 4.13 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**

- 4.14 The First Reading Debate report of the Director of Finance and Corporate Services to Full Council on 21 November 2011 set out progress on the budget. The projected budget gap for that stage was £4.4m in 2012/13, if there was no council tax increase.
- 4.15 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 2011/12*

The First Reading Debate report highlighted a forecast overspend of £1.8m for 2011/12. As highlighted in Section 3 robust actions have meant that the budget is forecast to be on target. This means that balances at 31 March 2012 are expected to be £10.080m, £319k more than the original forecast.

*b. Service area cost pressures*

Total service area cost pressures of £7.2m have been funded within the budget. These are detailed in Appendix D(i) and include:

- Adult Social Services (£2.2m)
- Housing Benefit related costs (£1.7m)

- Children social care grant reductions (£0.9m)
- Children social care legal costs (£0.8m)
- Contractual inflation (£0.7m)

*c. 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 supports delivery of savings and cost avoidance measures in the budget.

It is forecast that by 2014/15, the One Council Programme will have achieved an £82m reduction in the budget gap compared to the 2010/11 baseline. This is made up as follows:

Savings within individual service cash limits (£62m). These include savings in:

- *cross-council projects* including Civic Centre, future customer services, staffing and structure, review of employee benefits, procurement, finance modernisation, future customer services, and income maximisation; and
- *service projects* including waste, libraries, parking, highways maintenance, grounds maintenance, services to young people, early years, children's social care, school improvement, special education needs, transitions of children with disabilities to adult life, adult social care customer journey, direct services, commissioning and integration with health, housing needs transformation, and revenues and benefits lean reviews.

£20m from *cost avoidance* which reduces the amount the council needs to provide for cost pressures within the budget. These measures include:

- zero provision for general price inflation as a result of structure and staffing changes and strengthening of procurement through the strategic procurement project – £12m per annum by 2014/15;
- introduction of changes to the waste service which, in addition to direct savings within the Environment and Neighbourhood Services budget, has meant that the central provision for the £8 per tonne per annum increase in landfill tax can be removed - £1.866m per annum by 2014/15;
- increased use of in-house foster carers and other changes introduced as part of the Children Social Care Transformation project - £1.8m per annum from 2012/13;
- the Adult Social Care customer journey project - £1.165m per annum from 2011/12; and
- reduced amount needed for growth for transition of children with disabilities as a result of better planning - £1.5m per annum by 2014/15;

- management of growth in demand for social housing (as part of the wider housing needs transformation project) - £1.5m per annum by 2014/15.

The scale of savings/cost avoidance measures 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. This includes the need to invest resources in programme management, project management, change management, and IT and other infrastructure. These costs are offset against the overall One Council Programme savings.

Details of savings from individual projects are included in Appendix D(v). Table 4.1 below summarises the savings and also shows the overall costs of the Programme. Costs and savings are monitored as part of normal budget monitoring procedures.

**Table 4.1 One Council Programme savings and costs**

	2010/11 Actual £'000	2011/12 Forecast £'000	2012/13 Budget £'000	2013/14 Budget £'000	2014/15 Budget £'000
Cross-cutting savings/cost avoidance	10,099	29,419	34,671	42,034	48,534
Service project savings/cost avoidance	1,590	12,279	22,688	29,352	33,148
<b>TOTAL PROGRAMME SAVINGS</b>	<b>11,689</b>	<b>41,698</b>	<b>57,359</b>	<b>71,386</b>	<b>81,682</b>
Total Programme costs	4,290	2,639	4,017	6,017	6,017
<b>NET PROGRAMME SAVINGS</b>	<b>7,399</b>	<b>39,059</b>	<b>53,342</b>	<b>65,369</b>	<b>75,665</b>

The One Council Programme Board, which is chaired by the Director of Strategy, Partnerships and Improvement, meets fortnightly to monitor overall progress on the Programme and receives four weekly updates on individual projects and their delivery of benefits. The One Council Overview and Scrutiny Committee receives progress reports on the overall Programme three times each year. The Committee also receives updates on progress on individual projects.

#### *d. 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.

Where appropriate budgets held centrally have been transferred to service areas including the budgets for Regeneration and Schools Refurbishment.

## 2012/13 Service Area Budgets

4.16 Table 4.2 below summarises the changes in budget at service area level between 2011/12 and 2012/13.

**Table 4.2 Service Area Budgets**

	2012/13 Revised Base Budget £'000	Cost Pressures		Savings		2012/13 Draft Budget £'000
		£'000	%	£'000	%	
Adult Social Services	89,936	2,229	2.5	(2,613)	(2.9)	89,552
Children & Families	52,928	1,690	3.2	(3,216)	(6.1)	51,402
Environment & Neighbourhood	36,691	641	1.7	(3,259)	(8.9)	34,073
Regeneration & Major Projects	33,864	1,194	3.5	(1,781)	(5.3)	33,277
Central Units	31,781	1,404	4.4	(855)	(2.7)	32,330
<b>Total Service Area Budgets</b>	<b>245,200</b>	<b>7,158</b>	<b>2.9</b>	<b>(11,724)</b>	<b>(4.8)</b>	<b>240,634</b>

## Central Items

4.17 Central items are items not included in individual service cash limits. The total of central items is £41.180m in 2012/13. Further details of the items are included in Appendix F.

## Risks

4.18 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. Given the nature of the financial challenge facing the Council this assessment addresses both the year ahead and later years.

4.19 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 risk. There is also the risk of increased borrowing costs should long-term interest rates rise;
- e. procurement risks. No allowance has been made for general price increases within the MTFs. However these pressures 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 from 2011/12 onwards 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.

4.20 The risks are quantified in Table 4.3 below.

**Table 4.3 Major Risks**

	Potential Risk £'000	Likelihood %	Net risk £'000
<b><u>Demand risks</u></b>			
Adult care packages	3,000	20%	600
Children's care packages – incl legal costs	3,000	20%	600
Waste	500	20%	100
<b><u>New legislation and other statutory changes</u></b>			
Housing Benefit Changes – impact on homelessness budget	6,000	20%	1,200
Localisation of Council Tax Benefit	3,500	20%	700
<b><u>Interest rate risks</u></b>			
Combined potential effect of reduced short term rates, additional borrowing requirement,	5,000	20%	1,000

	Potential Risk £'000	Likelihood %	Net risk £'000
and bank failure			
<b><u>Procurement risks</u></b>			
Risk that cost of social care placements may increase by more than allowed in the budget	700	20%	140
Energy risk – risk of increases in energy prices which cannot be contained in budgets	200	25%	50
Other procurement risks	3,000	20%	600
<b><u>Pay risks</u></b>			
Risk that pay increases are above those allowed for in the budget	600	20%	120
<b><u>Grant risks</u></b>			
Risk of exceeding the threshold on housing benefit overpayments in 2012/13	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
<b><u>Savings/income risks</u></b>			
Risk of not achieving savings in the budget	39,984	15%	5,998
Risk of loss of income from ongoing impact of recession	600	15%	90
<b><u>Asset management risks</u></b>			
Closure of council buildings and need to undertake emergency maintenance or find alternative accommodation	1,000	10%	100
<b><u>Major disaster</u></b>			
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 15% above it.	500	30%	150
<b>Total General Fund revenue risks</b>	<b>70,184</b>		<b>11,943</b>

## Balances

- 4.21 As set out in Section 3, the council's General Fund usable balances are forecast to be £10.080m at the end of 2011/12.
- 4.22 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.



- 4.23 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.
- 4.24 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 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.
- 4.25 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:
- a. The minimum prudent level of balances should be £12.0m, which is sufficient to meet the revenue budget risks identified in the report. Given the medium term approach adopted in the budget process it is reasonable to meet this target within the next two financial years;
  - b. The optimal level of balances, to enable effective medium term financial planning in the authority, remains at £12.0m to £15.0m, 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.

- 4.26 Table 4.4 below presents the proposals from the Administration on balances in 2012/13.

**Table 4.4 Proposed General Fund Balances in 2012/13**

	<b>£'000</b>
<b>Total Estimated Balances at 31 March 2012</b>	<b>10,080</b>
Proposed contribution from 2012/13 budget	1,000
<b>Estimated Balances at 31 March 2013</b>	<b>11,080</b>

Member decisions on balances

- 4.27 Members must decide on the contribution they wish to make to or take from balances in 2012/13 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 4.30.

**Overall Budget Requirement**

- 4.28 The overall budget requirement in 2012/13 resulting from the proposals in this section is £260.392m. 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 2012/13**

	<b>£'000</b>
Service area budgets	240,634
Non-ringfenced Grants	(27,213)
Central items	41,180
Inflation provision and cost pressures and savings held centrally	4,791
Contribution to balances	1,000
<b>Proposed budget requirement for 2012/13</b>	<b>260,392</b>

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

**Table 4.6 Change in Budget Requirement 2011/12-2012/13**

	<b>£'000</b>
<b>Budget requirement 2011/12</b>	<b>267,889</b>
add inflation provision	2,025
add cost pressures	7,158
less change in central budgets	(3,456)
less service area savings	(11,724)
less reduction in contribution to balances	(1,500)
<b>Proposed budget requirement for 2012/13</b>	<b>260,392</b>

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

- 4.30 Under Section 25 of the 2003 Local Government Act I am 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 and forecasts of demand and risk, the higher the level of balances required to justify the budget calculations. This budget has been carefully prepared, risks have been identified and quantified and, while excessive provision has not been made in the budget, a prudent and cautious approach has been taken. The council also has adopted 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 £12.0m, which will cover the General Fund revenue budget risks identified over the medium term. Given the approach taken by the Council in addressing the budget challenges over the medium term it is appropriate to phase the increase in reserves over the next two financial years. I am of the view that the optimal level of balances to cover risks and allow effective financial planning, which will contribute to longer term financial stability, is £12m to £15m. I also consider 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 £1m in 2012/13, with a further increase in 2013/14 with the impact of this taken into account in budget projections for future years in Section 6 below.