APPENDIX A

Brent	**Cabinet** 12 December 2016 **Report from the Chief Finance Officer**
	Wards affected: ALL
Financial Forecast 2016/17	

1.0 Summary

1.1 This report sets out the current forecasts of income and expenditure against the revenue budget for 2016/17. Subject to the various risks and uncertainties as set out in the report an underspend of £1.4m is forecast against the 2016/17 general fund net revenue budget. There are also underspends of £0.9m forecast against budgets financed by the DSG.

1.2 However, as set out below, whilst this overall position is satisfactory it is made up of some significant over and underspends within individual departments. The report also therefore sets out the actions being taken in overspending departments to mitigate the in-year position, and to address the risk that the forecast overspends impact in 2017/18.

1.3 This is a key element of the overall budget planning: the draft budget published for consultation in October 2016 was predicated on an assumption that the budgets previously agreed for 2017/18 can be delivered. If there is a risk that this may not be the case then additional savings may need to be considered, with negative and potentially significantly negative consequences for services.

1.4 Table One, overleaf, summarises the overall position. The report then sets out more detail on a department by department basis.

Table One: Overall financial position 2016/17
Net revenue spend is forecast to be contained within the agreed budget, but there are significant over and under spends within individual departments

Department	Expenditure	Income	Net budget	Forecast spend	Variance
	£m	£m	£m	£m	£m
Children & Young People	67.4	26.6	40.8	43.3	2.5
Community Wellbeing	196.3	75.1	121.2	123.7	2.5
Regeneration & Environment	72.0	38.4	32.6	29.9	(3.7)
Resources	46.0	16.6	29.4	31.0	1.6
PPP	10.5	0.8	9.7	9.9	0.2
Corporate financing	45.8	40.0	5.8	1.3	(4.5)
Total (General fund)	**438.0**	**197.5**	**240.5**	**239.1**	**(1.4)**
DSG funded activity	206.3	206.3	0.0	(0.9)	(0.9)
HRA funded activity	53.0	53.0	0.0	(2.4)	(2.4)
Overall position	**697.3**	**456.8**	**240.5**	**235.8**	**(4.7)**

2.0 Recommendation

2.1 To note the overall financial position and the action being taken to manage the issues arising

3.0 Detail

Children and Young People

3.1 Table Two, below, summarises the departmental position.

Table Two: CYP financial position 2016/17
An overspend of £2.5m is forecast, as budgeted cost reduction strategies have not yet achieved the intended results, compounded by financially adverse demographic factors

	Expenditure	Income	Net budget	Forecast spend	Variance
	£m	£m	£m	£m	£m
Localities	7.7	0	7.7	8.9	1.2
Looked after children and permanency	6.8	(0.2)	6.6	6.6	0.0
Partnership, Planning and Performance (Placements)	16.1	(2.2)	13.9	15.7	1.8
Other GF supported activity	36.8	(24.2)	12.6	12.1	(0.5)
General Fund Total	**67.4**	**(26.6)**	**40.8**	**43.3**	**2.5**

3.2 The forecast overspend in the Localities service is principally driven by a high dependency on agency staff (£0.8m). Permanent social worker recruitment, using external marketing agents, has had only very limited success, and as a result staff costs are £0.8m above budget, representing the difference in cost between agency and permanent staff in social care. A workshop session is being held on 16th November with Heads of Service to agree a strategic approach to improving the position. This will include closer work with Human Resources to market and recruit permanent staff. Current resource is also being drawn from the public sector consultancy Impower to advise on recruitment and retention strategies. A broader workforce development strategy is being created and social work recruitment and retention will sit within this. Rapid progress will be needed to ensure that this activity reduces the existing pressure before the start of the new financial year.

3.3 The Placements budget is substantially overspent. Of this, £0.5m relates to under delivery of a directed saving of £0.7m, which was expected to be achieved by moving children to lower cost placements. In addition, the LAC population has risen from 326 on 31 January 2016 to 357 on 18 October 2016, with children coming into care tending to be older with more complex and challenging needs which has added an unbudgeted pressure of £0.2m to the service. An external consultancy, Impower, has been engaged to review whether alternative ways of managing the demand might be employed to reduce costs, and a recruitment campaign to take on more in-house foster carers, so improving the durability of placements at lower cost, is ongoing.

3.4 The department may also have duties under the Children Act to families who have been classed as intentionally homeless. At present an overspend of £0.4m has been forecast, representing the additional housing costs faced once housing benefit income has been factored in. There are 50 families currently being supported. An integrated approach between housing and children's services was agreed at CMT in March 2016, and has to date resulted in bringing this overspend down from £0.5m.

3.5 Additionally, the department is currently supporting 87 unaccompanied asylum seeking children (UASC), this has risen from 64 at 1 April 2016. The average costs of support are about £13k, once the Home Office grant has been accounted for, so this translates to a pressure of £0.25m in 2016/17. If the national transfer scheme for UASC operates as expected numbers should start to reduce by December.

3.6 The department has generated net underspends of £0.5m on other activity to mitigate the forecast overspend, through expenditure controls, as described below. This will be recurring in 2017/18. This means that the structural position in 2017/18 should, subject to the usual forecasting uncertainties, be more or less in balance, provided that:

- Savings at or close to £0.8m can be delivered through recruitment and workforce redesign to reduce the dependency on agency staff;
- Demand for children's placements can be managed down to deliver at least the £0.5m planned saving;
- The integrated housing and children's services team can deliver cost reductions of £0.4m; and

- The UASC dispersal programme begins to operate nationally as expected.

3.7 In year, other control actions are also being undertaken; Operational Directors began a program of bi-monthly service budget reviews commencing August 2016 which continue, with finance support, to look at each service area line by line, an entry to care panel chaired by an Operational Director rather than Head of Service from January 2016 to manage demand, and consideration of PO monitoring by Operational Directors of all spend between £1k - £10k.

3.8 Services funded by the DSG are forecast to underspend by £0.9m, and the schools are currently forecasting to spend to budget. However, this last forecast, based on previous years' experience, should be treated with some caution, as in practice schools have collectively delivered significant underspends in each recent year.

Community Well-Being

3.9 Table Three, below, summarises the departmental position.

Table Three: CWB financial position 2016/17
An overspend of £2.5m is forecast, principally caused by slippage on the NAIL programme

Service Area	Expenditure	Income	Net Budget	Forecast spend	Variance
	£m	£m	£m	£m	£m
Culture	7.5	(2.0)	5.5	5.5	0.0
Housing Needs	50.4	(44.0)	6.4	5.9	(0.5)
Housing Central Services, Travellers site, Private Housing and Partnerships.	6.4	(4.1)	2.3	2.3	0.0
Supporting People	4.3	0.0	4.3	4.3	0.0
ASC Directorate, Commissioning, Direct Services	11.1	(8.4)	2.7	2.7	0.0
Mental Health	7.2	(2.5)	4.7	5.0	0.3
Reablement and Safeguarding	40.5	(4.2)	36.3	37.6	1.3
Support Planning and Review	46.4	(9.9)	36.5	37.9	1.4
Public Health	22.5	0.0	22.5	22.5	0.0
Total	**196.3**	**(75.1)**	**121.2**	**123.7**	**2.5**

3.10 The NAIL programme is a key element of the department's plans to reduce the cost of adult social care whilst enhancing the independence afforded to service users. Savings of £4.1m were planned in the 2016/17 budget, predicated on an additional 260 units of provision coming on stream during the year. However, only 76 units have currently been commissioned, forecast to increase to the target level by the end of the year. As a result there is an in-year shortfall.

3.11 The delays are principally due to:

- Programmed de-registrations by residential care homes not progressing at the rate estimated;
- The building of new developments by the private market being delayed; and
- Underestimation of the time required for schemes to go live.

3.12 Over the medium-term planning horizon, 2016/17 to 2018/19, the total planned savings of £6.9m should still be deliverable, but the profile of these will change as a result of the delays. Lessons have been learned about the improvement required to the delivery of the capital programme to minimise the risk of further slippage. However, in 2016/17 the impact of the delay is to cause a forecast overspend in the service's revenue budget of £2.9m, which will be partially offset by the underspends in the capital programme and correspondingly lower debt charges (shown in the corporate items section of this report).

3.13 In addition, the budget for homecare was based on an assumption of a 9% increase in client numbers in 2016/17 based on trend data that estimated in absolute terms, growth of 140 clients in 2016/17. However, a spike in demand in the last quarter of 2015/16 and the first two months in 2016/17 added an unexpected 74 homecare clients (on top of the normal trend growth of 60, or 134 in total over these five months). Since then, demand for Homecare has returned to the existing trend-line analysis that demonstrated a net 12 client increase per month. This additional spike led to an unbudgeted stepped increase in cost of £0.7m.

3.14 Average homecare hours allocated per client have increased from the 13.5 experienced last year to 14. This may reflect the ageing demographic and correspondingly higher care needs, and is creating an in year financial pressure of £0.5m.

3.15 Price led fee increases of 2% were budgeted for. A number of providers have requested increases from between 4% and 25%. Each 1% (on average) above the 2% assumed would create a pressure of slightly over £0.1m. Following a review of fee requests against a locally derived sustainable market rate, offers had to be made to providers at an average of 11% which represents a pressure of £0.9m.

3.16 In addition, there are also pressures relating to delays in achieving the planned 2016/17 savings for the department:

- The delay in the de-registration of Tudor Gardens has added a pressure of £0.2m in the 2016/17;
- The savings from the recovery pathway in mental health have stalled due to a lack of general needs housing to step down to, creating a pressure of £0.3m; and
- Savings from the transformation of the Commissioning function across the Council has not been delivered leaving a pressure of £0.5m in CWB.

3.17 These pressures are being partially offset by a mitigation plan that includes:

- investment in aids and equipment, which has reduced the need for double-handed care visits;
- A reduced transaction costs in processing financial assessments;
- A targeted review of LD packages;
- Recovery of unused Direct Payment funds; and
- Early delivery of planned 2017/18 savings through fairer contributions from the NHS to continuing health care packages.

3.18 The general needs housing budget is forecasting to underspend by £0.5m. This is due the implementation of the temporary accommodation reform plan, from which further savings are anticipated in future years, so the early success is an encouraging indicator. As at 2 October 2016 there were 2,871 families in temporary accommodation, compared to 3,025 at the same time last year. This indicates that the programme is starting to manage demand downwards more successfully.

3.19 Taken together these reduce the forecast overspend to £2.5m in 2016/17.

3.20 Planned savings of £1m in public health have not yet been delivered, Re-commissioning activity is underway to seek to deliver these for 2017/18, and savings of £0.5m have been achieved in substance misuse through vacancy management and service re-commissioning, without impacting on outcomes achieved. To the extent that further savings cannot be achieved in year a contribution from the ring-fenced public health reserve will bring this budget into balance for 2016/17.

3.21 Subject to the forecasting uncertainties, the budget in 2017/18 should be in balance provided that the following challenging targets can be met:

- The sourcing of NAIL units is accelerated or diversified to ensure the department meets the targeted number of units by the end of 2016/17 and 2017/18;
- Demand for Social Care services is further managed down to an extent that the planned growth funding for 2017/18 (£2m) is sufficient to also accommodate the stepped increase in client numbers in 2016/17;

- The Temporary Accommodation reform plan continues to reduce demand; and
- Public health re-commissioning deliver the required savings to meet the target savings.

Housing Revenue Account

3.22 The current position is for a forecast underspend of £2.4m for 2016/17, of which £0.9m can be anticipated to be structural and therefore to be available in 2017/18. The main reasons for the variance are:

- A structural underspend of £0.9m against the budget for the Warden and Concierge service, due to savings anticipated for the retendering of the service;
- An additional £1m in income collected from leasehold major works, now that section 20 issues have been resolved, most of which is through better collection of arrears; and
- An additional £0.5m in income due to improvements in rent and service charge collections, and largely through improved arrears collection.

3.23 These underspends will therefore temporarily increase the HRA balance as at 31 March 2017, and £0.9m, possibly slightly more, will be available to contribute towards the substantial HRA savings target.

Regeneration & Environment

3.24 Table Four, below, summarises the departmental position.

Table Four: Regeneration & Environment financial position 2016/17
A significant underspend of £3.7m has been delivered through a forensic review of budgets. In effect, all of the previously planned 2017/18 savings have been delivered early as a result, allowing some scope for re-prioritisation to address urgent service issues

Service Area	Expenditure	Income	Net Budget	Forecast	Forecast Variance
	£m	£m	£m	£m	£m
Brent Transport Services	6.4	(0.3)	6.1	6.0	(0.1)
Community Protection	2.5	(0.7)	1.8	1.6	(0.2)
Environmental Services Directorate	1.6	0.0	1.6	1.5	(0.1)
Parking & Street Lighting	13.4	(20.0)	(6.6)	(6.8)	(0.2)
Environmental Improvement	28.6	(2.8)	25.8	24.2	(1.6)
Highways and Infrastructure	5.4	(3.8)	1.6	1.6	0.0
Sub total	**57.9**	**(27.6)**	**30.3**	**28.1**	**(2.2)**

Regeneration & Environment Directorate	0.4	0.0	0.4	0.4	0.0
Building & Pest control	1.2	(1.6)	(0.4)	(0.4)	0.0
Employment Skills & Enterprise	3.9	(3.9)	0.0	0.0	0.0
Planning, Transport & Licensing	3.9	(3.7)	0.2	(0.5)	(0.7)
Estate Regeneration	0.1	(0.1)	0.0	0.0	0.0
Regeneration Investment & Capital Delivery	1.8	(0.2)	1.6	1.3	(0.3)
Standards & Enforcement	2.8	(1.3)	1.5	1.0	(0.5)
Sub total	**14.1**	**(10.8)**	**3.3**	**1.8**	**(1.5)**
Total	**72.0**	**(38.4)**	**33.6**	**29.9**	**(3.7)**

3.25 During the period July to September 2016 the department carried out a forensic review of all significant budget headings. The consequence is that the department is able to forecast a significant in-year underspend.

3.26 This exercise was extremely effective as a budget management tool. However, in a number of cases the savings identified were ones planned to be delivered in 2017/18, with for example posts being held vacant in anticipation of budgeted staffing restructures. As a result of these and similar actions a substantial in year underspend was generated, without which the council would be facing an overall overspend in 2016/17.

3.27 A sum of £0.25m is currently set aside to account for unexpected expenditure due to the reactive nature of the services. It follows that any additional requests for projects or works outside the current specification could not be accommodated within the existing financial envelope.

3.28 The strategic consequence is that the department is not, subject to all the usual forecasting uncertainties, at risk of overspending in 2017/18, and will be able to ensure that strategic priorities such as bolstering the planning service and developing a town centre management service can be met.

Resources

3.29 Table Five, overleaf, summarises the departmental position.

Table Five: Resources department financial position 2016/7
An overspend of £2.0m is forecast, principally driven by legal costs with minor overspends in other service areas

	Expenditure £m	Income £m	Net budget £m	Forecast spend £m	Variance £m
Director's office	1.2	0.4	0.8	0.8	0.0
Finance	3.7	1.0	2.7	2.8	0.1
Legal	2.7	0.9	1.8	2.8	1.0
Property	14.8	9.3	5.5	5.5	0.0
Customer Services	14.6	3.6	11.0	11.2	0.2
Digital Services	6.2	1.0	5.2	5.2	0.0
Human Resources	2.8	0.4	2.4	2.7	0.3
Sub-total	**46.0**	**16.6**	**29.4**	**31.0**	**1.6**
PPP	10.5	0.8	9.7	9.9	0.2
Total	**56.5**	**17.4**	**39.1**	**40.9**	**1.8**

3.30 There are minor overspends in a range of services. These are principally associated with the transitional costs of moving to new and significantly lower cost service models and therefore should not recur in 2017/18. The strategically significant issue is the forecast overspend in Legal services. Essentially this represents budgeted savings of £0.9m for 2016/17 that have not been delivered, but the picture underneath this headline is more complex.

3.31 A restructure of the Legal service was delivered during year, which will achieve full year savings of £0.45m, of which £0.2m will be delivered in year. However, the service has had to manage additional demand of £0.35m principally in respect of care proceedings. The additional demand has effectively cancelled most of the effect of the restructure. The current cost of the service cannot be met within existing budgets. Without remodelling of the service it cannot be afforded in 2017/18 within the existing financial envelope, and a full service review of the business model is being undertaken.

Corporate financing and other issues

3.32 Service department budgets are forecast to overspend by £3.3m in 2016/17. As set out in the report, action is in hand to ensure that those departments that are overspending manage these pressures down to avoid the forecast overspends recurring in 2017/18. Clearly, there are risks, and if the actions are not successful then further cuts to services would be required.

3.33 However, in 2016/17 there is also a significant degree of slippage in the capital programme. This is contributing to the forecast overspend on revenue, for example through the late delivery of NAIL units which, when delivered, will reduce revenue expenditure in line with the agreed financial model. Another consequence of the slippage on capital expenditure is that the budgeted figures for capital financing will be not be incurred in full, leading to a significant underspend of approximately £4.5m, which means that overall expenditure will be within budget.

3.34 Whilst this is clearly helpful in terms of the 2016/17 position the planning assumption must obviously be that the capital programme in 2017/18 will be delivered. It follows from this that this underspend cannot be relied upon in 2017/18, and therefore that tackling the causes of the 2016/17 overspends is an essential task in the remaining four months of the financial year.

3.35 The Council has previously agreed to deliver savings of £13.8m in 2017/18. These range, in terms of managerial complexity and risk of non-delivery, from those that are relatively straightforward, or even flow naturally from agreed and implemented service changes, to others that are more challenging. Management attention is increasingly focused on these latter items, such as procurement savings (£3.5m budgeted in 2017/18) and additional income through civic enterprise (£1.25m budgeted in 2017/18). Some of these have already been achieved, but there are material risks to delivery of the entire planned savings, and if the risks cannot be successfully managed then budget plans would need to be revised accordingly.

3.36 Nonetheless, despite these risks, the Council remains relatively advanced in its budget plans for future years and, notwithstanding the significant issues highlighted above, is forecast to underspend against the 2016/17 budget.

4.0 Financial Implications

4.1 This report is about the council’s financial position in 2016/17, but there are no direct financial implications in agreeing the report

5.0 Legal Implications

5.1 Managing public money responsibly is a key legal duty, but there are no direct legal implications in agreeing the report

6.0 Equality Implications

6.1 There are no direct equality implications in agreeing the report.

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