

# **Budget Panel**

## **Second Interim Report**

**February 2007**

### **Membership**

**Councillor Mendoza (Chair)**

**Councillor Pagnamenta (Vice Chair)**

**Councillor Cummins**

**Councillor John**

**Councillor J Moher**

**Councillor Shah**

## 1. Introduction

The Budget Panel was set up as part of the new Overview & Scrutiny arrangements introduced in September 2006. Our aim is to undertake an in-depth review of the key budgetary issues facing the council and influence the development of the administration's budget proposals. Then, using the knowledge and understanding gained through this process, to scrutinise and make recommendations on the administration's draft budget prior to it being agreed by Full Council.

Our remit is to examine the budget and assess whether or not it is realistic, and can deliver on the corporate strategy. The terms of reference included:

Examining the principles for budget setting

- The robustness of the budget and the ability to deliver savings
- Key revenue budget outputs and decisions
- Key capital budget outputs and decisions
- The Medium Term Financial Strategy

We will have three opportunities to make our views known to the administration and to the council as a whole. These are:

- **First interim report** prior to the draft budget
- **Second interim report**, which builds on the first report and will include recommendations on the draft budget prior to it being agreed by the Executive
- **Final report**, which builds on the second report and will include recommendations on the Executive's budget prior to it being debated at Full Council, the budget process and the budget scrutiny process.

This report combines our first interim report with our finding following the publication of the administration's draft budget.

## 2. Recommendations

### *First Interim report*

- 1 That given the current budget challenges and demands facing the council the administration should consider all options to ensure the delivery of high quality services to our residents. This includes:
  - The range of Council Tax increase available 0-5%
  - Efficiency gains
  - Savings
  - Phasing priority growth
2. That balances should be set at an adequate level. In deciding what the adequate level is we strongly advise the administration to be guided by the Director of Finance and Corporate Resources.
3. That long term budgetary and service delivery risks should be assessed and explained when making decisions on savings.
4. That the budget should be robust, realistic and predictive of future demand to avoid overspends.
5. The key priorities for improvement within the Corporate Strategy should be identified clearly. Those that it is proposed to phase should be clearly indicated as to time

scales and costs so they are implemented as and when they can be properly funded to avoid losing credibility with the public.

6. That there should be an analysis of existing core budgets across the council to see which of the priorities for improvement can be funded within service area base budgets.
7. That improved credit control procedures should be set in place, to avoid the situation where we are owed large sums of money, as is currently the case with the PCT.
8. That there should be greater transparency in how the budgets for central services are developed and consideration given to how they are presented in the overall budget.
9. That there should be a review of the council's trading units to establish that the council is getting value for money from their services.
10. That based on officer evidence there should be no increases in planned levels of unsupported borrowing given the impact this has on the longer term financial prospects of the authority.

#### *Second interim report*

- 11 That the children's care services budget is closely monitored to ensure that the proposed invest to save initiatives deliver the long term saving predicted and that no growth is needed in future years. In particular, the budget panel notes the Executive's intention that for the three years following this budget there will be no growth for the children's care services budget, and reminds the Executive that this is a challenging target given previous overspends.
- 12 That future budget reports include more detail on capital programme risks including potential overspendings and slippage or non-delivery of projects.
- 13 That the Executive should ensure that funds included in the budget to cover possible costs shunted from the PCT are there as a contingency and are not an acceptance by the council of these costs. While the budget panel accepts the reasoning for including these costs in the budget as an accounting measure, the budget panel is concerned by the leverage this might give the PCT. The Executive is therefore encouraged to revise the specific amount budgeted for PCT cost transfer downwards, in order to not encourage the PCT to assume its claims to this figure will automatically be met and that the PCT should aim for a higher cost shunt, but hold the amount in an earmarked contingency.
14. That the additional income that could be obtained from a more rigorous approach to fining utility companies for not carrying out works in stipulated timescales could be increased and arrangements should be put in place to ensure that, where repairs are done, they meet high standards.
15. That all members be encouraged to attend future meetings of the budget panel to raise awareness of the items within the budget and feed into the budget scrutiny process. The budget panel proposes that one of its meetings or a portion thereof be earmarked for the purpose of taking submissions from other members and that they be invited accordingly.
16. That members of the budget panel be given more time to analyse reports and data from the Executive at the equivalent periods in future years' budget cycles

### **3. Evidence**

The Budget Panel has met on 6 occasions so far, and has received the following evidence:

- Councillor Lorber, Leader of the Council – The Corporate Strategy and the administration's priorities.

- The Director of Finance and Corporate Resources – The budget gap 2007/8 and the future financial prospects of the council.
- Councillor Blackman, Deputy Leader of the Council – The budget gap and measures the administration plan to take to bridge the gap. He also answered questions on the Capital Programme.
- The Panel has spent some time focusing on budget pressures, core budget, savings and growth by taking evidence from the Director of Housing & Community Care, the Director of Children and Families and the Director of Environment and Culture.
- Budget trends analysis.
- Central Service Budget.
- Central items.
- Councillor Blackman, Deputy Leader of the Council on the administration's draft budget

#### 4. Discussion - The first Interim report

- 4.1 It is clear that this is an important budget for the council. We are at the start of a new administration, a new corporate strategy has just been agreed by Full Council and the council is facing significant budget pressures resulting from and significant budget pressures resulting from tight Government financial settlements and Brent PCT's financial problems. With this in mind the Budget Panel wanted to, in this initial phase of its work, take a strategic view of the issues and make recommendations accordingly.

##### *Corporate Strategy*

- 4.2 We heard from the Leader of the council about the corporate strategy and administration's priorities. We were keen to hear how, given the current financial climate, the administration proposed to deliver on these priorities. The Leader of the council acknowledged that it would not be possible to deliver on all of them in the first year and it would be necessary to focus on certain key areas.
- 4.3 We believe that it is important that corporate priorities are properly funded, so that the council does not lose credibility with our residents. The Corporate Strategy is a framework designed to shape the spending of the council and is not a growth bidding document. We therefore believe that the funding of growth for the corporate priorities should be phased over the next four years. An analysis of core service budgets across the council should take place to identify priorities for improvement that can be met from within existing resources.

##### *Budget Gap*

- 4.4 Councillor Blackman informed us that reductions in expenditure would be required to accommodate for the council tax capping regime and the fact that Brent had received a 'floor level' in grant funding. He outlined the issues relating to the PCT and reminded the Panel that in addition to the 2% efficiency savings already agreed, officers have been asked to examine whether 5% savings might be achievable.
- 4.5 We were keen to examine the administration's view of the appropriate level of council tax increase and whether any contingency plans were in place for dealing with the PCT related issues. Councillor Blackman informed us that it was not the intention of the administration to increase council tax by the maximum 5%, though this could not be ruled out in the current circumstances. We heard that levels of unsupported borrowing would have to be

controlled and that officers were examining option for restructuring the council's debt to bring down the level of capital financing charges within the budget.

- 4.6 The Panel questioned Councillor Blackman as to his views on levels of balances. He responded by saying that while officers would generally argue for a higher level of balances, in his view a higher level would provide a disincentive for service areas to control their spending and could be considered to be withholding council tax payers' money.
- 4.7 Other evidence we received, particularly relating to the PCT and the recent tornado, has led us to believe that it is important that the council should retain an adequate level of balances to ensure that we can meet any future risks. Although we do not want to be prescriptive about what an 'adequate' level should be we strongly advise the administration to be guided in this matter by the Director of Finance & Corporate Resources. If the administration finds that its predictive analysis of future spending results in no overspends for the next year, then the level of balances might be scaled down in future years. However we feel this would not be prudent unless evidence has first been seen of the administration's ability to control the overspends that have occurred in the past.
- 4.8 We heard from the Director of Finance and Corporate Resources that although the budget gap reported to Full Council in November 2006 has been reduced, a significant gap still remains. This Panel believes that given the current budget difficulties facing the council the administration should consider all options open to it to bridge the gap. These include:
- The range of Council Tax increase available 0-5%
  - Efficiency gains
  - Further savings
  - Phasing priority growth

#### *Budget Pressure*

- 4.9 The Panel has spent some of its time focusing on budget pressures, paying particular attention to areas of the council that have recently experienced significant overspends. The Director of Housing and Community Care informed us that it was estimated that Adult Social Services would overspend by £2.79 million in 2006/7. The Panel was informed that a range of measures were currently being taken to control this. In the longer term, issues such as eligibility criteria and the type and quality of services provided, would need to be addressed. Problems with long term demographic changes were highlighted. In addition the anticipated changes to the government's definitions of health and social care, due in April, would have an impact on the council, though it was difficult to judge what the impact will be at this stage
- 4.10 The Director of Housing and Community Care confirmed that the current financial problems of Brent PCT represented the largest potential risk to the council's budget. He outlined the issues and informed us that it was currently estimated that the costs to the council of taking up additional responsibilities and services were £9 million in 2007/8. The Panel was concerned to learn that the PCT were not being forthcoming about the full extent of the problems and their proposed solutions.
- 4.11 We were surprised to learn that in addition to this potential cost shunting outlined above the PCT owed the council £9.7 million, though this figure had been disputed by them. The Panel was concerned about how this level of debt had been amassed without intervention. We learnt that this was in part due to the dispute over figures and in part due to the difficulty in seeking legal redress from an organisation with whom the council has worked in partnership. Although we are pleased to hear that more than half of this debt has now

been collected and the balance was still being pursued, we feel that more robust debt collection procedures need to be put in place to avoid a similar situation in future.

- 4.12 The Panel raised questions about the potential of commissioning services in conjunction with other local authorities to help reduce costs. The Director of Housing & Community Care confirmed that although a cautious approach to this had previously been taken, areas for joint commissioning were currently being explored.
- 4.13 The Director of Children and Families informed the Panel that the overspend for 2006/7 for Children and Families had been revised down from an estimated £4.8 million to £3.3 million. The overspend was largely related to the social care element of the departments budget, which funds demand led services. One of the main reasons cited for this is the net increase in inward migration of children & young people, an increased number of children requiring extremely expensive and complex care, and the way in which the service is delivered.
- 4.14 A number of service delivery factors common to local authorities across London have also placed significant pressures on the department. These included a shortage of foster carers, a lack of residential care facilities within the borough and changes to legislation placing additional responsibilities on the council. Whilst it was acknowledged that there was a continued reliance on agency social care staff, it was stressed that the department had made improvements in recruitment.
- 4.15 The recent Joint Area Review of Children and Families assessed it as providing a good service at good value for money, although the children's care element was assessed as adequate. In addition, areas such as Referral and Assessment teams and support for disabled children had been identified as being under funded. A recent analysis by the Policy & Regeneration unit concluded that a raft of measures need to be put together in order to achieve budget stability over the long term, reduce the numbers of looked after children and deliver a more efficient and effective service. This is likely to be in the form of a spend to save bid. The Director of Finance and Resources informed us that a clear business case would need to be developed before funds could be made available.
- 4.16 The Director of Environment & Culture informed the Panel that his department had an annual budget of £45 million and covered 13 front line services. Budget pressures did exist within the services, these included the council's objective to improve street cleaning, government targets to reduce landfill and a budget gap for library services. The Panel heard that a large proportion of the libraries budget gap was due to a lack of effective forecasting when, for instance, additional opening hours were introduced. While it was confirmed that a number of options were being explored to close this gap, the Panel believes that services should be required to ensure that their budgets are robust and predictive of future demands to avoid overspends.
- 4.17 We were informed that some of the additional savings proposed in the Full Council report 27<sup>th</sup> November 2006 (appendix 2a) could pose a risk to services, and lead to financial loss. For instance, the proposed reduction to the budget for legal advice for negotiating Section 106 agreements (planning gain money), could reduce our ability to secure maximum income. The budget panel is therefore keen to ensure that long term financial risks are assessed when making savings decisions.

#### *Central Services*

- 4.18 Central services are spread amongst a number of units and it was not possible for us to question all relevant Lead Members and unit Directors/Heads. Instead we received a presentation from the Deputy Director of Finance & Corporate Resources. Whilst we were

unable to delve into this area in detail we do believe that there should be greater transparency about how the budgets for these areas are developed and consideration given to how they are presented within the overall budget.

- 4.19 In addition to core services provided by central service units, there are a number of services which are provided from the centre on a trading basis, including, amongst others, legal services, IT, property and a number of units within Communications and Consultation. It is important that the council knows it is getting value for money from these units. Questions we believe need to be addressed include: How much do we spend on these services? Are their charges competitive? Who is accountable for their performance? Is there a conflict between the role services have in regulating what the council does and their role as provider of services? Is it better value for money to provide these services in-house or use external providers? It is not the Budget Panel's role to carry out a review of the trading units, but we believe that the council should consider carrying out a review of this area.

#### *Capital Programme*

- 4.20 We received a report by the Deputy Director of Finance & Corporate Resources on the Capital Programme. This included information about the constraints, resources and expenditure. We then questioned Councillor Blackman on his view on the contents of the report. In particular we wanted to know to what extent the Capital Programme had been revised to reflect the priorities of the new administration.
- 4.21 Councillor Blackman informed us that a process had taken place to ensure that the Capital Programme had strong links to the Corporate Strategy. There has also been a strong emphasis on ensuring that all sources of funding were being explored, included in the Capital Programme and used to maximum potential. The administration is very concerned about the current level of unsupported borrowing. They have been advised by officers that there is limited scope for any increase above that for which funding provision is made in the local government finance settlement.
- 4.22 One of the specific areas we highlighted was the need for more school places in Brent. Councillor Blackman agreed that this was of concern to the administration and that there was a question as to how these places would be provided. Options available include expanding existing schools and entering into the City Academy Programme.
- 4.23 Based on the evidence, and officer recommendations, we do not support an increase in unsupported borrowing above currently planned levels.

#### **5.0 Discussion - The second interim report**

- 5.1 The second phase of Budget Panel's remit was to look at the administration's draft budget and question the Lead Member for Resources, Councillor Blackman, on key elements of the budget proposals. We then wanted to make recommendations prior to the draft budget being agreed by the Executive.
- 5.2 This has proved to be the most difficult part of the budget scrutiny process. Time constraints have meant that there was very little time between the budget proposals being published, our meeting and the meeting of Executive when the budget would be agreed. This left us with no time to examine the proposals in depth and fully understand their implications. Given these constraints we feel unable to make many detailed recommendations, and we would strongly counsel that increased time be given in the future by the Executive at this stage of the process so that the content of the budget can be

scrutinised as well as the strategy. There are though a number of points the Budget Panel would like to make.

- 5.3 Councillor Blackman informed us that the increased budget for children's care services and the invest to save initiatives outlined in his presentation would mean that the children's care services' budget would be capped for the next three years. Given the overspends that this service has experienced in the recent past, we would like to see measures taken to closely monitor this budget to ensure that the invest to save initiatives deliver the long term saving that is predicted and that no growth is needed in future years.
- 5.4 We found that the section of the budget report relating to revenue budget risks was far more detailed than that relating to the capital budget risks. The Lead Member for Resources explained this in terms of the different consequences of revenue and capital overspends and the ability of the council to slip schemes to fund overspends on capital schemes. However, we believe there is scope for more detail and we would like to see greater emphasis given to the capital risks in future.
- 5.5 We were concerned that £4.347 million to cover PCT cost transfers was explicitly included in the Housing and Community Care and Children and Families budgets rather than kept aside as a contingency fund. We questioned whether by doing so the council was accepting these costs and could be viewed as weakening our position to resist these cost shunts. We would like to ensure that the £4.347 million is clearly recognised as a separate earmarked contingency rather than an accepted part of the budget.
- 5.6 We heard that the administration proposed to enforce more rigorously the provisions within current legislation to fine utility companies who do not complete works which damages roads and pavements and impacts on traffic flow within stipulated time frames. We support this, but we believe the additional income that could be obtained from this could be greater if a more forceful approach were to be taken and propose that the administration should consider a more challenging target. Arrangements should also be put in place to ensure that, where roads and pavements are made good, they have permanent effect and the Council is not required to make further repairs later.
- 5.7 The next phase of our work will be to review the budget scrutiny process, to identify improvements and find ways to involving more members. We will also like to identify which, if any, of our recommendations have been taken up by the Executive when finalising their budget. Our final report will be circulated to all members prior to Full Council.

### **Background Papers**

Budget Papers Full Council 27<sup>th</sup> November 2006.

Budget Panel Minutes 26<sup>th</sup> October 2006, 21<sup>st</sup> November 2006, 7<sup>th</sup> December 2006, 18<sup>th</sup> December 2006, 10<sup>th</sup> January 2007, 5<sup>th</sup> February 2007.