



Budget & Finance Overview & Scrutiny Committee

First Interim Report

January 2013

Membership

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1. Introduction

The Budget and Finance Overview & Scrutiny Committee undertakes an in-depth review of the council's financial performance, medium term financial strategy, budget proposals and measures being taken to deliver a robust budget capable of delivering the administration's priorities as outlined in the Borough Plan. This includes examining the main issues, risks and pressures facing the council and the actions being taken to militate against them. In addition, the committee's report aims to be a source of easily understandable information for all non-executive councillors, thus enabling robust challenge and debate on the administration's budget proposals.

The national economic outlook is gloomy with predictions about economic growth being consistently and universally revised downwards. The forecast provided by the Office of Budget Responsibility (OBR) has changed from +0.75% announced with the budget in March 2012 to -0.1% announced with the Autumn Statement in early December 2012. The coalition government has made clear that it will continue with its deficit reduction strategy extending government spending cuts beyond the timescales envisaged at the time of the 2010 Comprehensive Spending Review. The context within which the council is setting the 2013/14 budget is therefore difficult, unlikely to improve in the near future and presents an on going challenge. Brent Council will continue to face some difficult decisions about the services that are delivered and the size and shape of the organisation well beyond the life of the current parliament. One of the Budget & Finance Overview & Scrutiny Committee's main areas of investigation has been to review how the administration proposes to achieve a balanced realistic budget and deliver on its priorities, whilst taking advantage of any opportunities that arise.

The One Council Programme, which was launched in 2009, aims to ensure a planned approach to budget reduction and organisational transformation and continues to be the main driver within the council's medium term financial strategy delivering £54.6 million of savings from existing and completed projects by the end of the financial year 2012/13. It is the transformation of services that continues to provide the bulk of the required savings. This committee's main interest in this programme is concentrated on its ability to generate those savings.

The committee's remit includes:

- Participating in the budget setting process
- Assisting in the setting of the council's budget within the context of the Borough Plan.
- Supporting the longer term service planning of the council by focusing its discussions on the Medium Term Financial Strategy, the principles for budget setting, the robustness of the budget and the ability to deliver savings, key revenue budget outputs and decisions, and key capital budget outputs and decisions.

The Committee has three opportunities to make its 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 includes recommendations on the draft budget prior to it being agreed by the Executive

- **Final report**, which builds on the second report and includes recommendations on:
 - the Executive's budget prior to it being debated at Full Council;
 - the budget process; and
 - the budget scrutiny process.

This report is the first interim report of the Budget & Finance Overview & Scrutiny Committee and contains the committee's recommendations to executive members prior to the publication of the Executive's draft budget.

2. Recommendations

1. That a clear and detailed set of priorities be developed to help ensure the successful delivery of the council's budget and to report to the Budget & Finance Overview & Scrutiny Committee on how savings are being made in the context of the priorities.
2. When setting the councils budget for 2013/14 the Administration should take into account the level of funding that will be available for the 2014/15 budget and endeavour to allow for forecast future reductions.
3. Continue to recall any Department that overspends its quarterly budget by 2.5% to the Budget and Finance O&S Committee paying particular attention to the main areas of overspend:
 - Adult Social Care
 - Children's Social Care and related legal costs
 - Temporary Accommodation
 - Environment and Neighbourhoods
4. That special attention be paid to the Children and Families budgets in future to align these more realistically with true spend.
5. That the council continues an aggressive policy towards maximising and realising Community Infrastructure Levy wherever possible.
6. That the council examines the use of outside consultants and temporary staff on an on going basis in order to ensure that such resource is only used where absolutely necessary and that best value procurement practice is always followed, with tight controls on costs
7. That the committee continue to receive regular reports on the One-Council programme to ensure it is achieving its savings targets In line with the overall project plan.
8. That the One Council programme become a standard and continuing workstream which seeks to constantly asses, monitor, measure and improve service and performance whilst reducing costs.
9. That the council develops a clear and coherent policy in regards to dealing with the business rates retention scheme which will be introduced in April 2013 including providing financial information on the levels of tariff/top-up payments.
10. That outline strategies are developed on how the council will provide a strong financial incentive to promote economic growth, particularly as local authorities will be able to keep a proportion of the business rates revenue that is generated in their area under the government's new business retention scheme
11. That the council continues with the current medium budget strategy to achieve reserves of £12m by 2013/2014.

12. That a financial review of the impact of population figures in the 2011 Census takes place, including the extent to which the government will increase grant to fund the increase in Brent's population to the actual figure of 312,000.
13. That an update on the council's Capital Programme is provided, which includes highlighting any slippages from previous financial years, sources of funding, developer contributions and the on-going need to provide additional school places.
14. That the Administration provides guidance to Members on the council's position on setting the council tax levels for 2013/2014.

3. Methodology

The budget scrutiny process mirrors that of the budget setting process and started in July 2012. At the committee's first meeting the Deputy Director of Finance provided an overview of the budget strategy 2013/14 to 2015/16 and the main factors that would influence the budget setting process. This included details about resource assumptions, updated budget gap, the capital programme and the One Council Programme. The resulting discussion helped to inform the development of the committee's work programme and highlighted areas of investigation. So far the committee has taken the following evidence:

- The then Director of Finance & Corporate Services attended the committee in September 2012 to provide a budget update.
- The Deputy Director of Finance provided regular updates on the budget process, budget gap, budget pressures and the future financial prospects for the council.
- The Deputy Director of Finance informed us about the proposed changes to Local Government Finance
- The Director of Regeneration & Major Project provided information about the current budget position, budget pressures and risks, future saving and the capital programme.
- The Director of Environment & Neighbourhoods, the Assistant Director of Strategic Finance, the Assistant Director of Environment & Protection and Assistant Director of Neighbourhood Services provided information about the role of the department since it's restructure in 2010, the current budget position, budget pressures and the department's One Council projects.
- The Director of Adult Social Care and the Assistant Director of Finance provided information on the Adult Social Care budget for 2012/13, service pressures including unit cost trends and the transformation projects aimed at producing savings.
- The Director of Children & Families and Assistant Director of Strategic Finance informed the committee about the department's current budget position, actions being taken to control the overspend and transformation projects that were aimed at making savings and efficiencies.

- The Director of Strategy, Partnership & Improvement and the Head of the Programme Management Office provided an overview of the One Council Programme and projected savings.
- Councillor Muhammed Butt, Leader of the Council and Councillor Ruth Moher, Lead Member for Finance and Resources and Deputy Leader of the Council attended every meeting to answer questions, discuss the First Reading Debate Papers and set out the administration's approach to setting a robust budget.
- The committee requested and is now receiving monthly reports on all services summarising budget, spend, forecast and variances to date, with reasons and exceptions noted.

4. Discussion

4.0 *Budget Gap and Budget Risks*

- 4.1 In July 2012 we received a report and presentation which set out the context within which the budget for 2013/14 was being developed. This included information on the economic conditions, projected spending, resources, pressures and opportunities. Assumption for spending included pay inflation of 1%, although no general inflation for 2013/14 and future years was assumed, an additional pension fund contribution and provision for additional demand pressures. Resources included formula grant, council tax base and collection and a proposed council tax increase for 2013/14 of 3.5%. After taking resources and spending into account we heard that budget gap would be bridged for 2013/4. The predicted gap for 2014/15 was £2.5m and for 2015/2016 it was £7.5m.
- 4.2 By the time of our November meeting the economic situation had worsened and the government had made a number of announcements that would impact on the development of budget proposals. These included: a council tax freeze grant, which would provide one off funding while limiting any council tax rise that council's could make if they decided not to take the grant and the top slicing of £4m from the Early Intervention Grant. On a more positive note we heard that the new census population figures could result in around £4m extra in grant funding, a council tax surplus would provide an additional one off £1.8m and a small underspend of £0.1m was predicted for the current financial year.
- 4.3 A number of risks and uncertainties were highlighted in both July and November. These were:
- The overall economic position
 - Council tax benefits – a budget gap of around £5.2m if a new scheme was not agreed
 - Further announcements by central government
 - Housing Benefit subsidy regime / increase in Temporary Accommodation
 - Level and complexity of One Council Savings
 - Lack of growth to council tax base
 - Delay in the Autumn Statement and local government settlement – not expected until 20th December
 - Localisation of business rates

- 4.4 We heard that the lack of growth in the council tax base as a result of short term council tax freeze grant funding would result in forgone income, over the three years the council tax freeze grant scheme had been in place, of around £7m. In the autumn the government announced that it would lower the local authority council tax referendum threshold to 2% and that the council tax freeze grant would provide the equivalent of a 1% council tax increase. This would make any decision to increase council tax this year very difficult.
- 4.5 The committee explored the risks associated with the localisation of council tax benefits. We were informed that the government's proposals would see the existing demand led subsidy scheme replaced by a fixed grant that will be at least 10% lower in value than the current 100% subsidy scheme. The council's options for dealing with the deficit included: financing the deficit which could cost up to £6m or developing a new Council Tax Benefit Scheme for Brent by modifying the existing scheme within the parameters set out by government. Any new scheme would need to be agreed and published by 31st January 2013 to ensure that the council would not be forced to continue with the current government scheme which would result in the council needing to find savings from elsewhere. Developing a new scheme would necessitate some complex modelling and difficult decisions. At our December meeting we heard that following consultation a proposed new scheme was due to be discussed and agreed at a special Full Council meeting later in December.
- 4.6 The government's new mechanism for funding local government, the localisation of business rates, will be introduced from 2013/14 and will replace the Formula Grant mechanism of funding. We were informed that the proposals had changed since it was first announced. Although it was due to start in 1st April 2013 the legislation was not due to receive royal assent until November / December 2012. A number of specific grants would be included in the totals including:
- Early Intervention Grant
 - Council tax support grant
 - GLA general grant
 - Bus service operators grant – London bus element
- 4.7 In changing the proposals from those originally announced the scheme had become more complex with an increased level of uncertainty around future funds. It was explained that the baseline would be set from April 2013. Out of the total of business rates collected, a 50% share would be returned to central government, which would be redistributed across local government to form the baseline. The GLA would receive 40% of the remaining 50% and Brent would be a top up authority.
- 4.8 In January 2013 the Deputy Director of Finance set out details of the provisional Local Government Finance Settlement for 2013/14. We were told that the settlement incorporates changes to the mechanism for funding as set out above and it was difficult to compare funding between 2012/13 and 2013/14 because many of the funding streams had changed, moved or had ceased.
- 4.9 Using the government's spending power figures Brent would see a reduction of -0.5% in spending power as compared to national average of -1.7% in 2013/14. This was consistent with the report we received in July and reflected the significant rise in Brent's population published with the new Census data. However in 2014/15 the council will see a reduction of -5.1% in spending power as compared to a national average of -3.8%.

The committee is concerned about this and would like to ensure that in developing budget plans for 2013/14 the Administration bears in mind the level of funding that will be available in 2014/15.

- 4.10 We heard that the council tax freeze grant for 2013/14 will be 'rolled in' to the base to become permanent funding. This equates to a council tax increase of 1.3%. Given that the government has set the level of council tax increase that will trigger a referendum at 2% the committee is keen that the Administration set out clear guidance in relation to the council's position on setting council tax levels for 2013/14.

5.0 ***The One Council Programme***

- 5.1 The One Council Programme is one of the key planks of the council's medium term financial strategy. Launched in 2009, it is designed to fundamentally change the way that the council carries out its business by significantly improving the way it delivers services, whilst limiting the impact of budget reductions on residents.
- 5.2 The Head of the One Council Programme informed us that over the first four years the programme was tasked with delivering savings of between £90m and £100m. We were informed that the Programme has so far delivered £41.2m by the end of 2011/12. It is anticipated that in 2012/13 it will deliver £13.4m, bringing the cumulative total to £54.6m. By 2014/15 the cumulative financial benefits are budgeted to reach £77.9m.
- 5.3 In 2012/13 the anticipated cumulative total of £54.6m is £1.1m short of the budgeted benefits of £55.7m. We were informed that actions were being taken within the individual departments to address this shortfall and as a result the 2012/13 budget was projected to come in on target.
- 5.4 One Council financial benefits built into the medium term financial strategy are £10.337m in 2013/14 and £22.095m in 2014/15. These were being delivered through:
- Realignment of Corporate and Business Support in advance of the move to the Civic Centre;
 - Significant procurement activity tied in with service remodelling: Parking, Highways Operations, Public Realm, Supporting People;
 - Managing down cost of supplies across the organisation through improved procurement systems and capacity;
 - Managing down demand through the Waste Management project, the on-going impact of the changes to the Transitions Service, and policy responses to welfare reform;
 - Fundamental change to service provision working in partnership with others – integration of Health and Social Care and Working with Families.
- 5.5 We were informed that officers had recently reviewed the One Council Programme financial assumptions and have identified a forecast shortfall of £1.029m in 2013/14 rising to £2.371m in 2014/15. Measures were being taken to address this gap. These include identifying new projects and reviewing existing projects to see whether they could deliver additional savings.

- 5.6 The committee discussed some of the individual projects and the savings they were projected to make. One of our main areas of concern was how achievable and realistic some the challenging targets were. We heard that different projects had differing level and types of risk associated with them. However it was appropriate to set challenging targets while managing the risks within the individual project and within the council's budget as a whole. The approach has successfully delivered the high level of savings achieved to date.
- 5.7 Members of the committee asked about the costs associated with the Programme and when the Programme was expected to end. We were advised that the programme had to date accumulated one off cost amounting to £12.7m, the majority of this related to new technology and equipment. The council had successfully developed in-house skills for delivering the programme and only involved consultants when their particular expertise was not available in-house and only for as long as that expertise was required. It had been envisaged that the programme would last until the end of the government's comprehensive spending review period 2011/12-2014/15. It was now expected that local government would be expected to continue to achieve savings beyond this date.
- 5.8 Overall the committee felt that the One Council Programme was working well and delivering on its main objectives. Whilst there was a level of risk associated with delivering the programme members agreed that targets needed to be challenging in order to make the required transformational changes and maximise savings. We were satisfied that within the overall context of the level of savings the Programme was delivering, the budget gaps were manageable and that suitable actions were being taken to address these. The committee would like to express its support for the Programme and recommend that the administration continues to use the One Council Programme as the council's main way of delivering the required savings for as long as necessary.

6.0 Budget Pressures

- 6.1 The committee spent some time exploring the main pressures the council faces when setting its budget. We were interested in exploring the short term pressures, the longer term pressures, the impact they would have on the council and the actions being taken to address them. To do this we focussed on the four largest spending departments.
- Regeneration & Major Projects
 - Environment & Neighbourhoods
 - Children & Families
 - Adults Social Care
- 6.2 The Director of Regeneration & Major Projects (RMP) informed us that the department's gross budget for 2102/13 was:
- General Fund £72m of which approximately £50m is spent on housing and £22m spent on property, planning and a raft of other projects
 - Housing Revenue account £56m
 - Capital projects £220m which included the Civic Centre
- 6.3 We heard that the temporary accommodation budget was the department's and the council's single biggest budget pressure. There were a number of reasons for this including the Local Housing Allowance (LHA) caps introduced in April 2011 and further welfare reform that is due to be introduced in 2013/14, which included Universal Credit and the 'bedroom tax'. Homeless applications and acceptances were likely to increase

with an estimated three to three and a half thousand people being worse off by up to £100 per week, though the Director felt that scale of the change had not yet been fully grasped by those affected. We explored what actions were being taken to militate against the risk associated with these changes. We were told actions included preventing people becoming homeless, rehousing out of the borough and helping people get into work, though the high level of rents in the borough and the current economic conditions provided a significant challenge.

- 6.4 The department is responsible for a number of areas that could have a positive impact on the council's budget such as the New Homes Bonus which will achieve £2.8m in 2012/13 and is estimated to achieve £4.2m in 2013/14, £5.6m in 14/15 and £6.6m in 15/16. The community infrastructure levy is also estimated to bring in £5m in 2012/13, £7m in 2013/14 and £7m in 2014/15.
- 6.5 The committee spent some time discussing Section 106 money and the work that the department had recently undertaken to ensure clarity around the monies available and a mechanism to spend it. Currently £16.5m was unspent though £9.3m of this had been allocated. A further £32m was yet to be triggered. We were pleased to hear that Brent was amongst the most aggressive local authorities when it came to getting the money from developers, that this work had been undertaken and that ward based information about S106 would be made available to members upon request.
- 6.6 We were informed that the department was on track to deliver £2.594m of agreed savings for 2012/13. Furthermore BHP optimisation would produce 13.6% savings over four years, these related to efficiencies and governance. We were also told that the Housing Revenue Account has been self financing from April 2012. The government has paid off £200m which amounted to half of the debt and the council now keeps all of the rent, though this was not without risk.
- 6.7 Two items dominate the council's capital budget. The schools programme will spend £68m in 2012/13 which would provide sufficient primary provision but would not meet the projected shortfall in secondary provision. A further £119m would be needed beyond 2012/13 though £83m of this is currently unfunded. The Civic Centre will spend £58m in 2012/13 though this is projected to save £3m per year after costs. Other capital projects include:
- South Kilburn - £22m in 2012/13
 - Willesden Green Redevelopment
 - John Billam scheme £5.5m
- 6.8 The committee explored how the capital portfolio and its associated risks were managed. We heard that following a recent review a full governance process was now in place which included gateway reviews for each project and programme stage, monthly portfolio status reporting and quarterly reporting to CMT.
- 6.9 The Director of Environment and Neighbourhoods informed us that whilst the department had delivered significant savings over the last three years, £500k in 2010/11, £10.7m in 2011/12 and £3m in 2012/13, it faces significant budget pressures. The are:
- Rise in landfill tax from £93 - £101 per tonne
 - Increase in utility cost for street lighting
 - Contractual inflation
 - Achieving One Council savings targets

- 6.10 Members of the committee were concerned to hear that a shortfall in the West London Waste Authority (WLWA) budget meant that the council would be asked to contribute a further £609k in 2012/13 and an additional levy of at least £800k in 2013/14. We heard that whilst it was known that the WLWA had some problems with their 2011/12 accounts an action plan was in place to manage and recover the situation. It had not become clear until late October that this could not be delivered. We asked if the council had to pay, but we were informed that as the levy was statutory we had no option but to pay. The committee was keen to ensure that the council was clear about what had gone wrong and what mechanisms could be put in place for the future operation of the WLWA and discussed a report on this at our January meeting.
- 6.11 We were informed that while the council was recycling 43.8% (Q1) as a percentage of household waste. The amount of waste going to landfill, including waste that had been picked up as a result of fly tipping, has reduced however this had not been enough to mitigate against the increased cost. Information about the work being undertaken to reduce amount of waste going to landfill and therefore reduce cost was discussed at our January meeting.
- 6.12 The Director told us that a large proportion of the department's budget almost £50m comes from internal and external income. This level of income could become increasingly difficult to maintain if as predicted the current economic conditions continue. Members explored the levels of income derived from parking enforcement and the mechanisms in place to recover debt. We heard that a corporate policy for debt recovery had been introduced and at present the council recovered approximately 69% or PCN related charges and there was a work stream within the One Council Programme to examine this.
- 6.13 There were a number of One Council Project linked to the department which were expected to result in significant savings related to procurement activities are: the Public Realm contract, the parking contract and the Highways contract.
- 6.14 The Director of Adult Social Services informed us that out of a departmental budget of £90.75m there was currently an overspend of £500k which was due to historical pressures from children transitioning in to adulthood but that this would be dealt with from within the department's overall budget. As a result of a One Council Project a new transitions service had been put in place with the aim of preparing children from the age of 14 to transition into adult life. While this has not produced the estimated savings this year it is envisaged that savings would be made in future years.
- 6.15 Over the last three years the department had achieved £13.42m of savings, which were largely due to better commissioning and procurement, particularly from taking advantage of the greater buying power of the West London Alliance. Many of the projects undertaken by the department have resulted in service transformation which focussed on a personalised approach to enable individuals to exercise greater choice and control. The reablement project for instance aimed to enable residents to regain independence and reduce their dependence on services thus delaying demand for more costly services.
- 6.16 Members wanted to explore how the council could make greater move towards intervening at an earlier stage to save cost in the long run. We heard that the currently the eligibility criteria for receiving a service are set at substantial and critical which means that the emphasis is on intervening at a later stage rather than on early intervention and prevention. However the transfer of responsibility for public health to the council and partnership working with the Clinical Commissioning Group offers huge

opportunities to develop more early interventions. For example an enhanced reablement pilot for older people with complex needs has recently started.

- 6.17 We asked how confident the Director was about achieving future savings. We were told that there was a high level of confidence around this year's budget but there were difficult questions to consider about how we deliver services in future. The main budget pressures faced by the department in the future included: the ability to commission services at a lower rate, increase in demand from a growing population, the complexity of cases, the ability to collect income and staffing costs. Members were presented with information on trends around unit costs which illustrated how costs were currently being controlled or reduced. One area of concern however was around the average weekly cost of mental health packages which can be distorted by the high cost of a few complex cases. We were told that a One Council Project was underway to address this.
- 6.18 The Director of Children and Families informed us that the department was organised into two divisions Social Care and Early Help and Education. The department had a general fund budget of £44.944m and a schools budget of £254m funded via the Dedicated Schools Grant (DSG). The bulk of the general fund was spent on child protection and placements while the Schools Forum had increasing decision making powers around a significant proportion of the DSG. The department was on track to deliver on budget for 2012/13, however there was a projected overspend in the social care placements budget, which will be met by redirecting funds from other areas of the department's overall budget. We were concerned that the social care placements budget has overspent in all of the last three years and on all occasions this has been met from within the departments overall budget. We believe that it is important to get the basic budget position right by, in the first instance, reviewing how the departments overall budget is allocated.
- 6.19 We were told that social care placements were largely demand led due to a range of factors including: changing demographics, increased levels of deprivation and incidences of domestic violence. This had meant that there was an increase of 8.5% in the number of children supported by the department in the last two years. Costs had been reduced by 16% over the last three years through a number of One Council Projects and the department was actively working with the West London Alliance to renegotiate contracts to reduce costs further. In addition a new methodology for assessing risk had been introduced and whilst child protection thresholds remained unchanged there had been a reduction in the number of children being placed into care. In examining the benchmarking data provided members queried whether there was a correlation between the quality of the care provided and the level of expenditure per child and were told there was not. Members also suggested that benchmarking figures with statistical neighbours would provide more a robust comparison.
- 6.20 Further budget pressures faced by the department in 2012/13 and future years included their ability to meet the savings target for the Working with Families One Council Project, the high level of social work case loads, SEN transport and services to schools. We were pleased to hear about the focus on early intervention and believe that this will lead to better outcomes for children and families. However we were keen to explore how realistic the savings targets attributed to the Working with Families project were. The Director informed us that the targets were ambitious and some targets will be difficult to meet though they would be closely monitored via the One Council Project Board.