



Budget & Finance Overview & Scrutiny Committee

First Interim Report

January 2011

Membership

Councillor Allie (Chair)
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1. Introduction

The purpose of the Budget and Finance Overview & Scrutiny Committee is to undertake an in-depth review of the council's medium term financial strategy, the 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 enabling robust challenge and debate on the administration's budget proposals.

The new coalition government's desire to reduce the national deficit as quickly as possible has presented local government with challenges and opportunities. The resulting emergency budget (June 2010) and Comprehensive Spending Review (October 2010) have had major ramifications for the budget setting process and timetable. One of the Budget & Finance Overview & Scrutiny Committee's main areas of investigation has been to establish, as far as is currently possible, what that means for Brent and how the administration proposes to meet that challenge and take advantages of the opportunities.

The One Council Programme of improvement and efficiency projects is the main driver within the council's medium term financial strategy for delivering significant cost reductions. Projects within the programme aim to make changes to the way the council delivers services, responds to demand led pressures, delivers greater choice and drives efficiencies in a way that also enhances performance. The Committee's main interest in this programme has concentrated on its ability to generate significant 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 Corporate Strategy and any other overarching partnership strategies.
- 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 Budget Panel's recommendations to executive members prior to the publication of the Executive's draft budget.

2. Recommendations

- 1. That balances should be set at an adequate level which takes into strong consideration the council's major risk assessment and continuing internal/external financial pressures.**
- 2. That the level of balances is reviewed at regular intervals and reported to non executive councillors to ensure that the levels are pertinent and stay relevant to our risks.**
- 3. That non executive councillor's be provided in an accessible format, information on the council's major risk assessment with and explanation of how this links into the level of balances required.**
- 4. That councillor's receive a regular update about progress in recovering funds from Icelandic Banks.**
- 5. That the Budget & Finance Overview & Scrutiny Committee expresses its full support for the council's effort to ensure that the Census data is an accurate reflection of the boroughs population. We would like to ensure adequate resources are available to support the necessary activity including looking at best practice elsewhere and encouraging councillors to participate where possible.**
- 6. That an Overview & Scrutiny Committee receives regular updates on the implementation and impact of the council's Lobbying Strategy.**
- 7. That a fundamental policy-based review is undertaken of departments with the largest and frequent overspends.**
- 8. That a level of Departmental overspend, to be agreed by members of the Budget and Finance Committee and the Director of Finance and Corporate Services, will automatically trigger an appearance before the Committee of the Director of the Department to explain the overspend.**
- 9. That in developing a new Capital Programme / Strategy the administration considers:**
 - **What elements of capital spend is non -optional eg spending for extra school places, maintenance on buildings.**
 - **In relation to Highways expenditure a risk assessment is made of what will be the impact will be on insurance claims.**
 - **What capital grant be lost if we don't match fund it or spend it now**
 - **What is the impact of zero spend on IT infrastructure**

- **More robust information provided on how the council intends to address the shortages of school places, particularly in regard to capital expenditure.**
 - **That achieving maximum revenue from our property assets is included within the new capital programme / strategy. This should include disposal of council assets, increasing usage/lets of council properties such as school buildings and information on how 'Locality Hubs' will be financed and maintained.**
- 10. That the council continues its work on procurement and achieving its savings as outlined in the One-Council programme.**
- 11. That the Audit Committee reviews the Procurement Team's strategy to achieve VFM in light of the Audit Commission's recommendations.**

3. Methodology

The budget scrutiny process mirrors that of the budget setting process and started in July 2010. At the Committee's first meeting the then Director of Finance and Corporate Resources provided an overview of the medium term financial strategy and the main factors that would influence the budget setting process. This included detail of cost assumptions, recent government announcements, emerging service pressures and the budget timetable. 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 Director of Finance & Corporate Services & Deputy Director of Finance & Corporate Services– Regular updates on the budget process, budget gap, budget pressures and the future financial prospects for the council following the emergency budget and the Comprehensive Spending Review. The committee also received regular updates on government announcements and their likely impact on the council's budget and a overview of the Capital Programme.
- The Director of Strategy, Partnership & Improvement provided an overview of the One Council programme and projected savings.
- Director of Housing & Community Care & Assistant Director of Community Care provided information on the Adult Social Care budget and forecast 2010/11, long term demographic pressures, and the transformation projects aimed at producing savings.
- Director of Children & Families & Assistant Director of Strategic Finance & Assistant Director Social Care informed the committee about the departments current budget position, actions being taken to control the overspend, transformation projects aimed at savings and efficiency and pressures on the capital programme from government announcements and demand for school places.
- Assistant Director of Policy & Regulation Environment & Culture & Assistant Director for Strategic Finance provided information on the departments current budget position, the proposed recovery plan for dealing with the departments overspend and future budget pressures.
- Councillor Anne John, Leader of the Council and Councillor Muhammed Butt, Lead Member for Finance attending to discuss the Comprehensive Spending Review, the First Reading Debate Papers and set out the administration's approach to setting a robust budget
- Margaret Read, Head of Revenue & Benefits provided information on the projected impact of changes to Housing Benefits and information about wider welfare reform.
- Cheryl Curling, Head of Communications report on the council's developing Lobbying Strategy.

4. Discussion – The First Interim Report

4.0 *The budget gap*

- 4.1 The coalition government's intention to make reductions to the national budget deficit within one parliamentary term has meant that predictions around the council's budget gap have been considerably more complex this year than in previous years. At our first meeting in July 2010 we received a presentation outlining the medium term financial strategy. This set out the assumptions relating to resources available to the council, such as reductions to formula grant and inflation and predicted the budget gap for the next three years. Assuming a council tax rise of 0% a budget gap of £24.6m was predicted for 2011/12 after allowing for £6.2m of savings from the One Council Programme with a cumulative gap of £94.4m in 2014/15. The council would still have a sizable gap even with a 3% rise in council tax, £21.5m in 2011/12 with accumulative gap of £81.5m in 2014/15. These figures included the impact of the government's Budget on 22nd June 2010, which resulted in the council losing £6.85m in grants in year.
- 4.2 By the time we discussed the First Reading Debate Report at our meeting in November the government had announced its Comprehensive Spending Review (CSR). Headlines from the review which related to local government included:
- a average 7.1% per annum real term reduction in formula grant in the four years to 2015
 - funding to freeze council tax in 2011/12
 - a Housing Benefits cap – discussed later in this report
 - a reduction in council tax benefit of 10% - this will be localised by 2013/14
 - an additional £2bn by 2014/15 to support social care
 - Increase in the cost of borrowing from the Public Works Load Board (PWLB) by an average of 1% more expensive
- 4.3 The First Debate Report set out two differing scenarios for the budget gap. Firstly assuming a council tax rise of 0% the gap for 2011/12 was predicted to be £36.7m with a cumulative gap of £98.1m in 2014/15. The second scenario included the government's proposed freeze of council tax for 2011/12 and a 2.5% per annum increase after that. The gap would be £36.7m in 2011/12 with a cumulative gap of £90.2m by 2014/15. The full impact of the CSR in terms of local government settlement would not be known until December. Meanwhile concerns remained over what the impact of the new formula grant methodology would be.
- 4.4 The First Reading Debate Report also set out measures that were being taken to close the budget gap. These include:
- ensuring there is no deficit carried forward from 2010/11
 - savings produced from the One Council Programme
 - identifying additional savings – permanent savings identified as part of managing the 2010/11 budget ceasing or reducing the scope of some activities

- 4.5 One of the Budget & Finance Committee's key roles is to examine how robust and deliverable the budget is. One of our main concerns has been the level of balances particularly given the level of departmental overspends that have been reported to us over the last few months. In October the total overspend was reported to be £5.6m but by November it had increased to £7.1m. The Director of Finance and Corporate Services informed us that if no action was taken to bring finances back into line the council's balances would reduce to £0.5m which would be substantially below the target set in 2010 of £7.5 m, which is already at the lower end of the range recommend by the then Director of Finance and Corporate Resources. By the time of our December meeting we heard that the total overspend had been brought down to £4.1m. While we understand that continued improvement was expected members of the committee were keen to investigate the underlying reasons for the departmental overspend in Children and Families and Adult Social Care in particular. This is discussed later in the report.
- 4.6 Given that the council is legally obliged to maintain a reasonable level of balances we pressed the Director on what a reasonable level of balances would be. We were informed that the current level met the requirement, but an indicative level of balances of £12m - £15m would be desirable given the increased risks, future financial pressures and difficult times ahead. A possible policy option could be to use Council Tax grant to grow reserves rather than for temporarily bolstering spending levels. The committee believes that the council should look to increasing its balances to the suggested figure and a number of mechanisms should be explored including that set out above. We would also like to see the risk assessment provided in an easily understandable format to ensure non executive members a better informed on this and have a clearer indication as to how the adequate level of balances arrived at and where the council's service risk lie for 2011/12.
- 4.7 One of the key components of the budget strategy is the One Council Programme and its aim to drive costs out of the base budget. To explore the ability of the programme to deliver significant savings and close the gap we invited the Director of Strategy, Partnership and Improvement to provide us with an overview of the programme. We heard that the programme was about providing services in a different more efficient way that would produce savings, though there was still an emphasis on improvement.
- 4.8 We heard that the programme was managed by the Programme Management Office with a Programme Management Board that agreed the business case for each project, monitors progress and ensure that savings are identified and delivered. At our September meeting we were informed that that the council was on target to meet the £4.5m savings required for 2010 / 2011 and that the Programme Management Board was undertaking a series of meetings to identify deliverable saving for 2011/12 onwards. The Committee asked for this to be reported to us when available.
- 4.9 The Director of Finance & Corporate Services provided this information in November. Key headlines included that for 2011/12 the One Council Programme would deliver £20.8m of saving which accounts for 57% of the savings required. This would leave a budget gap of £15.9m which was an improvement to that predicted in July. By 2014/15 the cumulated savings from the programme are predicted to be £43.9m which is 49% of the total required.
- 4.10 The committee explored how realistic the projected savings from the programme were and we were assured by the Director of Finance & Corporate Services that they

were realistic and achievable. In projecting the savings the Programme Management Board had been prudent but expected that in reality the savings total from the Programme would be bigger.

- 4.11 The Audit Commission highlighted procurement as an area that Brent needs to develop. The committee understands that the One Council Overview & Scrutiny Committee will be looking at this project in April as part of its oversight of the One Council Programme. As this project aims to take £16.6 m out of the base budget by 2013 / 14 and there is huge potential for further savings we believe that additional focus should be placed on the financial aspects of the project and on achieving value for money. We would therefore recommend that the Audit Committee reviews the Procurement Team's strategy to achieve Value for Money in light of the Audit Commission's recommendations.
- 4.12 At the November meeting, as mentioned above, the residual budget gap was £15.9m. The committee questioned the Leader of the Council and the Lead Member for Finance about how this would be closed. The Leader of the Council informed us that the council could no longer deliver some services in the way it does currently. A fundamental review of activities was therefore underway. This was not just about stopping non statutory services but would look at what we provide and how it is provided. We sought reassurance that decisions made about services would not disadvantage those in the more deprived parts of the borough. Councillor John acknowledged that there remained the need to address inequalities in Brent.

The Director of Finance and Corporate Services informed us that tough decisions will need to be made and Members would need to consider:

- things the council can stop doing
- things the council can do less of
- things that another organisation could do better
- things that can be done more efficiently

5.0 *Budget Pressures*

- 5.1 The Committee spent some time exploring the main budget pressures facing the council. We were not just interested in the short term issues but wanted to explore the longer term pressures, their implications and the measures that were being taken to address them. To do this we focussed on what was, until the council's recent restructure, the three largest spending departments.
- 5.2 We heard from the Director of Housing and Community Care that demographic changes resulting in rising demand and managing that demand was a key issue for Adult Social Care. Some of the demographic changes came from people living longer including those with long term illnesses and an increased number of clients moving from Child to Adult Social Care.
- 5.3 The service has previously overspent its budget in each of the last three years and at the time of the September meeting the 2010/11 budget was overspent by £3.5m. It was therefore clear that service needed to take an in depth look at the underlying reasons for this. The Director said that the identified issues include: people not being assessed quickly enough, services not being provided quickly enough and the services commissioning and procurement strategy needed to be reviewed. Given that, the service had been rated as good by the Quality Care Commission.

- 5.4 The department has responded to these issues by developing a number of projects to improve services and create savings. These included the Customer Journey Project, the Direct Services Review and West London Commissioning. The Assistant Director Community Care told us that the aim of the Customer Journey project was to achieve a more efficient and leaner customer service that would improve consistency, performance and produce savings in staff costs and care packages. This would ensure that the council's assessment of substantial needs was being robustly applied. We were informed that the council might need to consider raising the requirement for service to the highest level of critical. This would result in many people not being eligible for the services they currently receive.
- 5.5 The Direct Services Review is likely to result in a significant move away from building based services like Day Centres that were experiencing a fall in visitors. Instead services will be brought by clients from their personal budgets with the aim of making clients more independent and delivering choice. It was envisaged that this would result in significant capital and revenue budget savings.
- 5.6 We were told that the Adult Social Care West London Procurement Project had a number of work streams. It had started over two years ago and while it had proved slow to get started it was estimated that the homecare project would result in an estimated £900k annual saving for the council.
- 5.7 The Children and Families department had also faced demand pressures that had contributed to an overspend for 2010/11 estimated in October to be £3.2m. The Director of Children & Families told us that the child population of Brent was rising and the cases were becoming more complex. In addition deprivation had increased in Brent over the last three years. Until this year an invest to save programme had been successful in controlling spending levels and the number of looked after children had fallen until a very recent sharp increase.
- 5.8 The number of non looked after children being supported by the council was also rising. Since the Baby P case there had been a 25% to 33 % increase. This would increase both support and court cost.
- 5.9 The Children's Social Care Transformation Project aimed to address some of these issues while improving efficiency and producing savings. Work streams included: reducing the unit costs of residential units, increasing the number of in-house foster carers, reducing costs for post looked after children, and reviewing the work of the Crisis Intervention and Support team.
- 5.10 The Committee explored options for reducing the threshold for referral and the scope for working with other boroughs in attracting more in-house foster carers. We heard that lowering the threshold could present a risk and that other authorities were in competition with Brent Council when trying to attract foster carers.
- 5.11 We heard that £420k of the department's overspend was due staff not being correctly budgeted for and that this is being addressed. A further £180k was due to photocopying costs and this would be addressed through the corporate photocopying contract. By our December meeting the department had been successful in reducing their projected overspend to £1.7m.
- 5.12 A perennial area of concern for the council is school places. The demand for places has continued to rise and by the time of our meeting in October there were 111 children without a school place. The council's capital programme has identified £26m

to deliver an additional 10 forms of entry up to 2015/16 but funding has not been identified beyond that. The government is currently reviewing capital funding for schools so correctly predicting future demand for school places, though difficult, is increasingly important.

- 5.13 As previously highlighted by the Budget Panel the detrimental impact of underestimated Office of National Statistics population figures for Brent is an ongoing concern. The 2011 census would provide an opportunity to gather the necessary evidence to challenge their view. The Budget Finance Overview & Scrutiny Committee would like to strongly support all efforts to ensure that Brent's population figures are captured accurately and correctly and ensure that adequate resources are available to support the necessary activity, including research best practice from elsewhere. We would also like to encourage all councillors to participate in the process where possible.
- 5.14 The Environment & Culture department's main budget pressure was from decreased demand for income generating services relating to planning, land charges and street care licences. Parking revenue was down by approximately £60k largely due to the recession. This had resulted in an income shortfall of around £500k. In addition the department had lost £350k in area based grant. In October we heard that there was a forecasted departmental overspend of £850k.
- 5.15 In examining the departments recovery plan the committee heard that each unit within the department was set a target and would be accountable for achieving them. The Assistant Director said that this approach had worked in the past and that there was no indication that the budget pressures would impact on service delivery. In November we heard that the overspend had reduced to £404k
- 5.16 Additional budget pressures and areas of risk emanating from the Comprehensive Spending Review include the withdrawal of the Carbon Reduction Scheme which would result in a £500k additional cost to the council and an increase in the cost of borrowing which will be 1% more expensive from PWLB.
- 5.17 Exploring this further the Director of Finance and Corporate Services told us that currently the council pays out around £25m per year in interest. Some significant reductions in interest payment had recently been achieved by repaying some long term borrowing with short term borrowing at a variable rate of 0.5%. Careful consideration always needed to be taken about how viable this is given the penalties for early repayment. Borrowing is carefully managed via the council's treasury policy and given the potential volatility of variable rates it was advisable to keep about 75% of borrowing at fixed rates. The council has adopted new treasury management advisors Arlingclose. We would like to ensure that the Audit Committee continues to have an overview of their strategy and that Councillors receive regular updates on the recovery of funds from Icelandic Banks.
- 5.18 Given the range of budget pressures Members of the Committee asked for a report on how the council could ensure that it had a strategic, co-ordinated approach to lobbying on issues that impact on the Borough. We heard from the Head of Communications that the following immediate priorities had been identified:
- Population estimates and council funding
 - School places in Brent
 - Building Schools for the Future / Academies
 - Housing Benefit
 - GPs and Health Services in Brent

- Local Government Finance
- Adult Social Care
- Regeneration, housing and employment

We also heard that the initiatives outlined in the report would form the basis of a Lobbying Strategy which would be discussed by the Corporate Management Team in October 2010. The Director of Communications and Consultation would have overall officer responsibility for implementing the strategy. While the committee understands that the administration would assume political ownership we would like to ensure that the strategy and its impact are regularly reviewed by an Overview & Scrutiny Committee.

6.0 *The Capital Programme*

6.1 The Capital Programme is a four year rolling programme which is updated each year. The current programme spans 2010 – 2013/14 but currently reflects the priorities of the previous Corporate Strategy so does need to be updated to reflect the new Borough Plan. We heard that key challenges for developing the capital programme are:

- To revisit the estimated sources of funding, taking into account:
 - the impact of the 2010 Comprehensive Spending Review, which will not come clear until after the local government settlement has been announced, and
 - the continuing impact of the economic downturn on other contributions such as reduced levels of S106 Agreement monies arising from a slowing of major development projects.
- The ongoing need to provide additional school places across the borough and address other school capital needs, particularly in light of the cancellation of the Building Schools for the Future (BSF) programme.
- To ensure that the up-dated capital programme delivers the council's key priorities within the resources available.

6.2 The main risk with the current programme is that borrowing costs increase each year at a time when revenue resources are falling. This means that a greater proportion of the council's revenue will be used to service debt reducing the amount that can be spent on delivering services. Options open to the council are to reduce the level of capital spend and look for other sources of funding such as using grant or developing more self funded schemes such as the Civic Centre. In this type of scheme revenue savings made from, for instance, leasing and running office space would be used to service capital borrowing.

6.3 We heard that the impact from the loss of Building Schools for the Future was not yet known though the council does aim to spend its full allocation of the Basic Needs Safety Valve funding to get up to the basic number of places. It would also be possible to look within the council's property, such as Children's Centres, for suitable alternatives for school places though costs would need to be considered carefully. The Committee would like more robust information provided on how the council intends to address the shortages of school places, particularly in regard to capital expenditure.

- 6.4 The committee would like to ensure that achieving maximum revenue from our property assets is included within the new capital programme / strategy. This should include school buildings information on how 'Locality Hubs' will be financed and maintained.
- 6.5 The Budget and Finance Committee would recommend that in developing a new Capital Programme the administration considers the following:
- What elements of capital spend is non -optional eg spending for extra school places, maintenance on buildings.
 - In relation to Highways expenditure a risk assessment is made of what will be the impact will be on insurance claims.
 - What capital grant be lost if we don't match fund it or spend it now
 - What is the impact of zero spend on IT infrastructure
 - More robust information provided on how the council intends to address the shortages of school places, particularly in regard to capital expenditure.
 - That achieving maximum revenue from our property assets is included within the new capital programme / strategy. This should include disposal of council assets, increasing usage/lets of council properties such as school buildings and information on how 'Locality Hubs' will be financed and maintained.

7.0 *Projected Impact of Changes to Housing Benefits*

- 7.1 The committee was keen to explore the impact on the council of the proposed changes to Housing Benefit and the risks that would need to be taken into account when setting the council's budget.
- 7.2 Though details about the new scheme and wider welfare reforms were still emerging we heard from the Head of Revenues and Benefits that the impacts could be categorised into short, medium and longer term.
- 7.3 *Short term impacts* 2011- 2012/13 – Approximately 12,000 or around 80% of private tenants will experience a reduction in Housing Benefit. These tenants will either have to renegotiate their rent, move to cheaper accommodation or find a way to fund the shortfall. There is also likely to be movement of tenants into and out of Brent though it is difficult to predict the net effect of this at the moment. All of this activity will generate an increased workload for the Housing Benefit team who are already forecasting a 10% increase in workload for 2011/12 due to rising unemployment Brent which is on top of the 20% increase experienced in 2009/10 and 2010/11.
- 7.4 There is likely to be an increase in the demand placed on Housing Services arising from homeless applications and a potentially reduced supply of private sector accommodation.
- 7.5 Increases in non dependent deductions will mean that over 5,000 claimants will receive less Housing and Council Tax Benefit. There is a risk that this will lead to increased arrears which will require greater recovery and enforcement activities and therefore costs may rise.
- 7.6 *Medium Term Impact 2013/4* – details about the localisation and the reduction of Council Tax Benefit by 10% in 2013 are yet to be clarified but implications may include changes to the exiting computer system, staff training, redesign of forms and

some provision for some element of awards being locally funded. We heard that this will lead to additional operating costs.

- 7.7 *Longer Term Impact 2014-2017* – In the longer term the role of local authorities in administering benefits will fundamentally change. The council will continue to provide assistance with Council Tax liabilities, housing costs for tenants in temporary accommodation, supported accommodation and those of pensionable age. All other work age benefits will be administered nationally, though the department of Work and Pensions have indicated that there may be a role for local authorities in supplying face to face provision.
- 7.8 London Councils have indicated that the levels of Housing Benefit administration grant is will be reduced by an average of 27% over the next four years. We were told that the level of reduction for Brent is likely to be closer to 30% resulting in a reduction of about £300k in 2011/12 and 2012/3. Given this and the projected increase in workload an inescapable growth bid has been submitted as part of the current budget setting process.
- 7.9 We probed further about the actions being taken to deal with the changes. We heard that packages of advice and information would be available to landlords and tenants, practical measures for those at risk of homelessness would be developed and new policies and procedures would be put in place to ensure fair distribution of the Discretionary Housing Award.