Appendix A

Update on the 2017/18 financial position and proposed budget adjustments

1. The overall revenue position for Brent Council in 2016/17 was that net expenditure was contained within the agreed budget. However, as the final year-end outturn report shows, this was achieved through a relatively unusual combination of circumstances, where the underspend on central items matched the net overspend within service departments.

Department	**Full year Budget (£m)**	**Actual Outturn (£m)**	**Variance (£m)**
Community Wellbeing	122.9	126.1	3.2
Performance Policy & Partnerships	10.5	10.5	0.0
Resources Department	31.8	33.9	2.1
Regeneration & Environment	33.5	29.5	(4.0)
Children And Young People	40.8	43.1	2.3
Net Service Total (General Fund)	**239.5**	**243.1**	**3.6**
Central Items	(239.5)	(243.1)	(3.6)
Total (General Fund)	**0.0**	**0.0**	**0.0**
Housing Revenue Account	4.0	1.4	(2.6)

2. As it to be expected in a large and complex organisation spending over £1bn per year there were multiple factors affecting the final results. However, the key issues were:

    - An overspend of £2.0m within adult social care, primarily caused by the delay in bringing new NAIL units on-stream against the budgeted targets.
    - An overspend of £2.4m within legal services, where safe ways to reduce staffing to the budgeted amount could not be identified
    - An overspend of £2.3m within children's social care, where the cost of rising demand over the last two or three years had not been matched by budgetary allocations

- An underspend of £4.0m within Regeneration and Environment, where a review of budgets identified ways to ensure that the 2017/18 savings could be delivered early, creating an in-year and one-off underspend and other efficiencies

- An underspend of £3.0m on capital financing costs, where delays in delivering the capital programme, including the impact on the NAIL programme highlighted above, created a one-off underspend in capital financing costs.

3. These issues were highlighted in monitoring returns to Cabinet throughout the year. At the council wide level the budget for 2016/17 was therefore controlled effectively, and the LGA peer review (published in March 2016) confirmed that this operated in a mature fashion and as intended. Emergency cost control measures did not need to be implemented, despite the substantial overspends in some service areas, as total expenditure was known to be contained at the council-wide level.

4. Throughout the year in reports to Cabinet the underlying issues behind the over and underspends were set out, differentiating between those that were the result of one-off factors and those that were potentially structural. The difference is critical for sound long-term financial management, as structural issues will at some stage require additional funding to avoid permanently setting unrealistic budgets for services.

5. This last point is important to stress. There was nothing wrong with a budget process that set, for example, challenging targets for savings in legal services. Indeed, these targets were proportionate to targets set for other back office services. Nor is there necessarily anything amiss, in principle, in Brent's financial management arrangements in recognising now, as this report proposes, that those targets should be acknowledged as largely unachievable, and that the budget for 2017/18 should be adjusted accordingly.

6. Council sensibly agreed overall contingency sums to be built into the budget for 2017/18 to enable adjustments to be made to service budgets. This enables Cabinet to agree virements, where it is satisfied that all reasonable steps have been taken to attempt to achieve the savings originally envisaged, and this report sets out those steps. Agreeing the adjustments now will enable services to manage to realistic budgets thus enhancing financial management and control.

7. The following table summarises the proposed budget virements. These proposals have been arrived at through extensive work at CMT level, including a series of high level meetings between the chief executive/chief finance officer and relevant strategic directors, and underpinned by significant analysis of the relevant budgets. Senior officers are confident that all reasonable steps have been taken to manage expenditure within previously agreed departmental budgets, and that the alternative to the virements now proposed would be unnecessary and damaging reductions to services. Furthermore, agreeing to these virements now will allow the council to manage to realistic budgets in

2017/18 as part of the planning for the further savings that we know we still need to identify for 2019/20.

	COMMUNITY WELLBEING	CHILDREN & YOUNG PEOPLE	RESOURCES DEPARTMENT	PERFORMANCE POLICY & PARTNERSHIPS
	£m	£m	£m	£m
Budget Adjustments 2017/18				
NAIL adjustment (one off)	6.90			
Flexible Homelessness Support Grant	1.17			
CYP budget		1.00		
Capital/Commercial			0.35	
Legal budget deficit			1.00	
Legal virtual budget			0.10	
London Boroughs Grant Unit				0.28
Housing Scrutiny committee				0.05
LLW funding for Bilfinger			0.23	
Total Budget Adjustments 2017/18	**8.07**	**1.00**	**1.68**	**0.33**
Procurement savings				
Procurement savings achieved		(0.70)	(0.34)	
Additional savings to contribute to procurement shortfall	(1.00)	(0.20)	(0.30)	(0.20)
Procurement savings total	**(1.00)**	**(0.90)**	**(0.64)**	**(0.20)**
Civic Enterprise savings	**0.00**	**0.00**	**(0.10)**	**(0.15)**
Total Virements	**7.07**	**0.10**	**0.94**	**(0.02)**

a. **Legal Services.** An increase to the budget of £1.0m is proposed. Legal Services overspent by £2.4m last year, largely due to increased demand for key services which meant that staffing costs could not be safely reduced in order to deliver on previously planned savings between 2015/16 and 2016/17.

The growth has been driven by the following items: Children Social Care cases, support for Capital works in Regeneration and Property and debt. In addition, there have been substantial increases in court fees over recent years as the government has sought to shift the cost of running the courts to those who use them.

While the savings were previously predicated on a revised operating model for legal services intended to achieve savings in line with other back office departments (approximately 40%), reducing in-house capacity without a reduction in demand for legal support has the effect of pushing more work out to counsel and to private sector firms. The overall cost to the council as a result increases rather than reducing.

That said a number of reviews (both internal and external) have taken place through the year, which have helped to benchmark the service versus other authorities, review external spending unit costs, implement a flatter structure with fewer senior posts in a safe and planned way as well as a range of gatekeeping measures designed to manage demand and costs.

Whilst reductions in staffing and demand management measures are starting to have an impact there remains a structural budget shortfall of £1.0m, even after further proposed control measures are taken into account. The consequences of making further reductions in staffing, over and above those already agreed will mean a significantly reduced service offer, more expenditure on external legal fees, potentially pushing costs to other parts of the Council notwithstanding potential reputational damage of not meeting the Council's statutory obligations. If approved, the budget adjustment should enable planned spend to be contained and therefore enhance financial management and control within the service.

In addition, £0.1m of additional funding is proposed to specifically fund a senior contract lawyer to support capital programme.

b. **Capital programme and commercial**. £0.35m additional funding for commercial accountants to support the delivery of the expanding capital programme.

c. **Performance Policy & Partnerships**. £0.275m additional funding to compensate for unachievable savings in relation to the London boroughs Grants Unit, where it was not possible to achieve the necessary two-thirds majority to agree the savings, and £0.05m additional funding for Members' allowances for housing scrutiny roles.

d. **Children & Young People**. An increase to the budget of £1.0m is proposed. The CYP department overspent by £2.3m in 2016/17. The main reasons for the overspend were; the use of agency social workers to fill vacancies in front line services, increased spend on supporting intentionally homeless families, a rise in the number of unaccompanied asylum seeking children (UASC) being placed and supported, and an increase compared to the previous year, of placements for older children with complex needs. There has therefore been specific increased demand on placements for UASC and older children compared to 2015/16 when savings targets were set, when looked after children numbers were at lower levels and the financial impact of accommodating intentionally homeless families was unknown. Following an internal review which identified cost saving measures, it is estimated that £1.0m is needed to address the structural deficit, and this will provide the CYP department with a realistic budget to manage to in 2017/18.

e. **Community Wellbeing**.

An increase to the budget of £6.9m is proposed to reflect the iBCF to be received in 2017/18.

Demand and price led pressures of at least £1.8m have already been identified by the department for 2017/18. The grant will be used to fund these pressures and maintain Adult Social Care services, including increased NAIL provision, which could not otherwise be maintained, as well as investing in new services, such as those which support best practice in managing transfers of care and have long term financial benefit to the council.

However, it should be noted that there is no certainty that this funding will continue post 2019/20, thereby offsetting this pressure until 2020/21. Section 8 of the main report describes this in further detail.

An increase to the budget of £1.168m is proposed to reflect the Flexible Homelessness Support Grant to be received in 2017/18. This was announced after the budget was agreed and this virement will allow Community Wellbeing to fund Homelessness prevention.

f. **Property.** A budget increase of £0.3m (profiled £0.225m in 2017/18 and £0.075m in 2018/19) is proposed to fund London Living Wage for staff working under the Bilfinger contract.

8. The Council set challenging procurement savings between 2017/18 and 2018/19 of £3.5m and £4.5m respectively, predicated on saving 10% on a range of existing contracts. Realising these savings in 2017/18 has been challenging and has got off to a slow start where £1.5m or 44% of planned savings have been achieved so far. This shortfall is largely due to the re-letting of contracts where no savings were able to be negotiated and where contracts have yet to be re-let.

Consequently, further savings are proposed in some service areas to compensate for the shortfall in 2017/18. Additional savings are proposed within Resources (£0.5m) and Performance, Policy and Partnerships (£0.2m). Further savings of £1m are proposed in recognition of additional income that can be raised through the Gordon Brown Education Centre (£0.2m), increased charges in relation to HMO Licenses (£0.25m) and additional housing benefit income from temporary accommodation clients (£0.5m). Savings of £0.25m are proposed in relation to the Occupation Therapy budget where costs previously funded from the revenue budget will be charged to the capital programme. Overall, these compensating savings (total £1.9m or 56%), if agreed, will offset the shortfall in procurement savings in 2017/18. This will still leave a demanding target of £4.5m to be met in 2018/19. However, as £2m of this was intended to be met from the savings that naturally arise from the expiry of the street lighting PFI contract during the year, the target, whilst still demanding, is not unrealistic.

9. The Civic Enterprise savings of £5.6m were agreed between 2017/18 and 2018/19. Within this £2.5m relates to fees and charges underpinned by comparing Brent to neighbouring authorities in order to bring charges in line including for services that were previously free. So far this year 50% or £0.6m has been achieved with £0.3m proposed in this report. This refers to £0.1m to recognise additional income in relation wireless concessions and £0.2m of additional income to be achieved within Communications. There remains a gap of £0.6m from the original target with further proposals being developed by service areas that will be reported to the Civic Enterprise Board and when appropriate bring to Cabinet to agree.

10. Overall, it is recognised that the Council has got off to a slow start in 2017/18 in the delivery of Procurement and Civic Enterprise savings. Nonetheless, in relation to procurement, the additional savings proposed will compensate for the shortfall to the extent that central contingencies will not need to be drawn upon. However, it should be noted that despite implementing reasonable contingency plans in 2017/18, there are still savings for 2018/19 that need to be delivered and therefore given the experience of 2017/18 further scrutiny will need placed on each procurement decision.

11. The adjustments proposed within this report can be managed within the overall contingency sums set aside for these purposes.