Notable Practice

Case Study – Medium Term Financial Plan

London Borough of Brent

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audit commission

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Executive summary

1 London boroughs face particular and major financial challenges in meeting rising demand for social care and other services. These challenges result from the demands of changing demographics and the need to conform to more rigorous inspection systems and expectations of improved performance.

2 Brent had a medium term financial strategy (MTFS) in place since the late 1990s, but it proved inadequate because it relied on limited data available to measure the impact of changing demographics. This led to the Council unexpectedly overspending on adults' and children's care. As a result, balances fell to as little as half a million pounds in the early 2000s.

3 Brent decided to renew and strengthen its MTFS in 2003 by using reliable and tested activity data, backed by developing a risk-based approach to setting and maintaining balances. It also put in place 'high-level monitoring' arrangements which meant that measures to reduce overspends were subject to corporate overview and challenge by a high-level group chaired by the chief executive.

4 Brent matched this rigorous approach to activity monitoring and financial risk management with efficiency and 'invest to save' initiatives. Together, these enabled the Council to:

- achieve financial stability;
- make significant savings; and
- simultaneously become one of England's fastest improving councils.

Local context

5 The London Borough of Brent is situated in the west of London, with a high level of deprivation and a majority BME population. It had serious problems in the 1990s of political and financial instability. It made strong progress in overcoming these through a shared commitment by members and officers. However, the Council hit serious budgetary problems in the early 2000s, mostly because of overspends on social services. These financial difficulties coincided with a more rigorous national performance regime introduced as part of the Comprehensive Performance Assessment. Together these pressures persuaded the Council that it needed to re-examine its financial planning and make stronger plans to ensure long-term financial stability, enabling services to develop and improve.

Medium Term Financial Strategy

Impetus for change

6 The result of pressures on the social services' budget meant that at the end of the 2002/03 financial year balances had fallen to just £500,000, against annual expenditure of about £250 million. This threatened the financial stability of the Council and led the council's auditors to warn that balances were dangerously low. In addition, under the new statutory requirement to provide clear and strong professional advice on the acceptable level of balances, the director of finance gave councillors explicit guidance on the need for adequate balances.

7 Meanwhile, councillors had concerns that the requirement to fund continuing budget pressures on social services was undermining their, and the electorate's, priorities for improvements to environmental services. In addition, the focus within the CPA regime both on the effective use of resources and continuing improvements to services meant the Council had to develop more effective methods of managing budgetary pressures.

8 Members and officers became equally committed to adopting more effective financial and performance management systems.

What did the Council do?

9 The Council's approach was to adopt a more rigorous Medium Term Financial Strategy (MTFS). Brent had initially established an MTFS in 1998/99, but the pressures encountered in the early 2000s showed the underlying data and assumptions to be unreliable.

10 The MTFS had not been sufficient on its own to provide an assurance that outturn would be in line with budget. To be more effective, the MTFS had to be used as a means of driving down revenue expenditure. Officers analysed the reasons for the overspend and concluded the Council had been caught by surprise, in particular, by the cost of elderly people in care. The Council did not have accurate information on how many elderly people were in care, how much they were costing, or how much extra they were likely to cost in subsequent years. Consequently, a much greater focus went onto 'activity monitoring'. Regular activity monitoring reports were produced indicating numerical activity across Council departments, the cost impact of this and related performance against indicators.

11 The Council also put in place high-level monitoring arrangements to ensure that it took rigorous action to address any pressures that might arise. Pivotal to these arrangements was the 'high level monitoring group', chaired by the chief executive, which oversaw programmes to address service overspends and turn around failing services. Examples of success include:

- transforming a failing benefits service into one of the most improved services in the country;
- transformation programmes in children’s social care that resulted in a reduction in the number of children in care from 427 in June 2006 to under 380 two years later; and
- cash reductions on spending on placements for children in care of over one million pounds each year.

12 These were better outcomes for children and reduced costs to the authority. The auditor has recognised the high level monitoring group as innovative and effective.

13 It was clear the reduced balances of just half a million pounds in 2003 were too low and it became a priority for the Council to increase them. Brent built a contribution to balances into its MTFS and restored balances to around £10 million by 2006. As part of its approach to ensuring financial stability, the Council adopted a risk-based approach to determining the necessary level of balances. The Council achieved this by assessing each of the major financial risks it faced and including this as part of the annual budget process. The Council then sets a target range for balances based on this assessment. The financial risks are monitored at a service and corporate level monthly – 'financial hotspots monitoring' - to ensure that they are being managed effectively.

Making efficiency savings

14 The MTFS, activity monitoring and the risk-based approach to balances were developed alongside the Council's efficiency programme. The MTFS had included a 2 per cent annual efficiency requirement, but it often achieved this by classic 'salami slicing' measures, such as deleting vacant posts, reducing supplies budgets and removing growth put in for priority projects. There was a combination of renewed pressure from government to focus on real efficiencies through the Gershon programme and increased financial pressure on the Council as public finances tightened. This placed the Council on the grant floor (receiving the minimum possible increase in grant, which is below inflation) forcing it to look at more radical measures.

15 The Gershon approach, in particular, led the Council to consider making efficiencies that cut across traditional service boundaries, developing shared solutions with other councils and using one-off resources to put in place 'invest to save' programmes. The Council also developed a value for money tool for managers on its intranet site, which included case studies where the Council had made efficiency savings.

West London Alliance

16 The West London Alliance (WLA) is a partnership between six West London boroughs, with Brent playing a leading role. Chief executives of the WLA member authorities meet to consider how co-operation can bring down costs, such as in procuring adults' and children's social care and in human resources administration. In social care, the priority is to overcome providers' market domination that has enabled them to dictate prices. WLA members share information on prices paid, with the aim of reducing the inflation element of costs. Brent has made savings of some £300,000 annually on adult placement costs by working with neighbouring boroughs to develop a consistent approach to annual increases in care home rates. WLA may also become the means for cross-border shared services in adults' and children's care and in human resources.

The Fair Pricing Tool

17 The 'Fair Pricing Tool' uses benchmarked prices to help authorities that are procuring care to assess whether prices are fair. It also helps commissioners to reconsider the underlying needs of individuals in care. The tool was devised to help authorities cope with the rising, and highly variable, costs of residential care. Authorities now also use Supporting People programmes. Historically in all of these care activities, it has been difficult for authorities to contest charges that providers have imposed. Analysis in Brent and elsewhere suggested a low correlation between the quality of care and the price paid.

18 Brent used the fair pricing tool to review 91 existing residential care placements. In 21 cases this led to renegotiations, with savings of up to 37 per cent for each placement, with an average cost reduction of 10 per cent. Brent expects the tool to be a significant factor in achieving a projected £500,000 savings a year in the learning disabilities budget for 2008/09.

Learning disability placements

19 Expenditure on residential and nursing home care represents nearly half of local authority expenditure on people with learning disabilities. Given both the costs and the desire of service beneficiaries to live in their own homes, it is necessary to review the use of residential care services.

20 Brent achieved savings of over £300,000 annually following a review of learning disabilities placements, which halved the number of people with learning disabilities placed in residential care. This has also provided better and more appropriate care arrangements.

21 A Return on Investment (ROI) software model jointly developed by Brent and a private sector partner was used to predict the effect of moving people out of residential care. The ROI tool (now known as **mie**tool[1]) has been adopted by Capital Ambition, the pan-London centre for improvement and efficiency as the standard approach for assessing the return on investment of improvement and efficiency projects.

Looked-after children

22 Brent had too many children in council care, leading to higher costs and poorer outcomes for children's life expectations and quality of care. The Council learnt from other councils (Merton, Barnet and Tower Hamlets), which had better outcomes and lower costs - how to improve performance.

23 Brent engaged a consultant who was aware of best practice. The focus turned to developing in-house foster care provision, training at-risk families and preventive work and reducing the number of children for whom the Council was required to act as carer. More money went on employing care workers, reducing the need for agency workers and cutting costs. An additional £2 million went on these initiatives, which will be recovered within three years. So far, Brent has reduced the number of looked-after children from 427 to under 380. It has also reduced the amount spent on placements for children in care from just over £15 million in 2006/07 to under £13.7 million in 2007/08.

[1] The Regional Improvement and Efficiency Partnerships and the Department for Communities and Local Government commissioned **mie**tool from RSe Consulting. It is available to all local authorities free of charge, but councils should attend training to use it most effectively. Further information is available on **mie**tool on the Centre of Excellence London website – www.lcpe.gov.uk.

Vendor managed service for temporary staff

24 The Council spent £12 million a year on temporary staff, with departments using various agencies that fixed their own margins. The Council had no information on how many agency staff the Council used, what jobs they did, how long they were in place, or how much it paid them. The Council was engaged in the costly processing of large numbers of agency invoices.

25 Several West London Alliance councils entered into a contract with a vendor managed services (VMS) provider for agency staff. Now the VMS provider co-ordinates procuring all temps working for Brent, using various generalist and specialist recruitment agencies. Margins and additional costs, such as employers' national insurance, are set at standard rates and all contracts with temporary agencies have standard conditions. Agencies that supply agency workers to Brent are audited to ensure compliance with work eligibility, CRB references and other key standards.

26 The VMS provider administers the process, including processing approved online time sheets, production of monthly consolidated invoices and payment of all agencies. Management information includes reports on the temps currently working on-site, the monthly charges to the Council, duration of temps in post, equal opportunities, reason for hire, pay increases and management information for service areas.

27 The VMS contract started in June 2006. It is saving the Council nearly £500,000 a year on payments to agencies. It made a further £67,000 savings by transferring staff from temporary to permanent status and £100,000 in national insurance. There are significant non-cashable savings from automating the process for procuring agency staff and reducing the number of invoices processed from over 23,000 a year, to just 12 a year.

Storage of equipment for people with disabilities

28 The Council and PCT jointly commissioned an equipment service for people with disabilities, which was run from a store owned by the Council. It was difficult for the store to meet demand. Significant capital costs were required to make it fit for purpose.

29 A consultant was commissioned to consider options for the future of the equipment store. This led to service externalisation in February 2007. The Council let the contract with an annual saving (shared between the Council and PCT) of £423,000 – a cost reduction of nearly 30 per cent. Disposal of the existing building will generate a capital receipt and avoid costs that upgrading the existing building would have incurred. The new contract allows the service to expand to meet legislative requirements and the needs of clients. The requirement to meet targets for delivery of equipment is built into the contract specification, addressing previous underperformance.

Reverse e-auction for IT equipment

30 The Council spent about £600,000 annually on PCs and laptops. Until 2005/06, the unit cost of PCs purchased by the Council was among the highest in London. Most PC procurement was centralised, but some units purchased their own PCs - which often did not meet the corporate specification, leading to problems with performance and compatibility.

31 By actively managing its PC procurement, the Council reduced the unit price of a standard specification PC from £750 in 2005/06 to £490 in 2006/07 - the second lowest in London. All services are now required to purchase PCs through corporate IT; the Council moved to a regular PC replacement recycle; a standard specification for PCs was agreed. With clearer specifications, the Council improved its procurement practices.

32 The Council reduced costs further when it combined its purchasing power with other councils'. The London Centre for Excellence sponsored a consortium of boroughs to conduct a reverse e-auction for PC and laptops. E-auctions are reverse auctions to procure goods or services, conducted online. The e-auction saved £144,000 annually on PC procurement, in addition to £200,000 annually achieved by initial internal procurement improvement.

33 The Council's improved PC procurement system enabled it to participate with other councils (and some health bodies) in the e-auction. This accounted for a 30 per cent reduction in the unit price of PCs, while the Council raised its standard specification. The contract also delivered an extended warranty on PCs of five years (compared with three years previously) to match the new replacement cycle.

34 The move to a five-year replacement cycle reflected the higher standard specification. This meant that the PCs could cope with changes to applications. In addition, age-related faults are becoming increasingly uncommon and, where they occur, they are covered by the five-year warranty. PCs no longer need to be replaced every three to four years, as in the past. The longer replacement cycle has therefore added to the savings achieved through the e-auction arrangements without compromising either currency or utility.

Audit and scrutiny

Role of the Audit Commission

35 The advent of corporate assessments in 2002 helped stimulate Brent's improvement in financial management and planning. Brent reacted positively to the CPA regime and is one of the fastest improving councils in England, as measured by performance indicators.

36 The auditor's assessment of Brent's use of resources has been one of the key drivers to improvement. This helped Brent to plan its use and protection of balances. Brent still has balances below average – less than £10 million – but now has enough to meet contingencies, especially because of its improved financial planning system. Brent's auditor believes that having lower than average balances acts as an important driver in ensuring effective financial management, providing there is stability in the level of balances.

Scrutiny

37 Brent has a robust system of scrutiny. Its Audit Committee scrutinises the council's internal controls and its Performance and Finance Select Committee examines performance, financial and activity monitoring information and provides challenge to the Council's efficiency programme. The Council set up a Budget Panel in 2006. It has a key role in monitoring the MTFS and commenting on the Executive's proposals on the budget. Brent's Forward Plan Select Committee, chaired by a member of the opposition, can and does call in decisions of the executive. Scrutiny committees review health, children's and other key services.

Outcomes and learning

38 Brent's use of MTFS has withstood a range of pressures and the MTFS has helped Brent to withstand those pressures. The most obvious example has been in the crisis in relations with the PCT. But Brent has also been under strong demographic pressures, with increased numbers of migrants with diverse needs and an ageing population. The Council is also under severe financial pressure because of being on the 'grant floor'.

39 A comprehensive assessment of continuing care responsibilities undertaken by the PCT led to a potentially large call on the Council for the transfer of responsibilities for social care. The Council led a high-profile campaign to ensure the transfer was limited to those cases that were properly the council's responsibility.

40 However, significant costs have transferred across without undermining the council's financial stability. Balances remain at almost £10 million. It is indicative of the improvements brought around by development of the MTFS in the early 2000s that the Council has been able to withstand the impact of the transferred responsibilies.

41 The financial pressures continue. The Council expects to remain at the 'floor' level of grant increase for some years even if Brent can persuade the Government that its population has increased – which is a matter of disagreement. The floor increase in grant was 2.7 per cent in 2007/08 and 2 per cent in 2008/09, and falls to 1.75 per cent in 2009/10 and 1.5 per cent in 2010/11.

42 The combination of a 5 per cent council tax cap, the floor increase in grant and inflation running at over 4 per cent means a real cut in resources. This is when the Council faces budget pressures in adult social care, waste management, concessionary fares and homelessness costs all of which it has to fund from a reduced real resource base.

Outcomes

- The Audit Commission scored Brent as a three-star council, which improved well in 2005, 2006, and 2007.
- '(Brent) has a clear focus on achieving value for money and its financial standing is strong';
  'the council's good budgetary discipline has resulted in the restoring of the council's financial standing';
  the Council has 'the level of resilience needed to withstand quite considerable unexpected budget pressures whilst still progressing its objectives'
  (Source: Audit Commission Annual Audit and Inspection Letter, February 2008).
- The council moved from a level 3 to a level 4 in its financial standing assessment in the 2007 Use of Resources judgment.
- Children's social care moved from a level 2 to a level 3 in its most recent Annual Performance Assessment following implementation of its 'invest to save' programme.

- Brent has turned round poor services, such as benefits - which has gone from one star to three stars and won the IRRV award of most improved benefits service 2008.
- The council's performance has continued to improve despite:
  - having the 17th lowest (out of 20) council tax in outer London;
  - being on the 'grant floor'; and
  - having significant budget pressures resulting from population growth, PCT cost transfers and increased cost of waste disposal, concessionary fares and homelessness.

Lessons learnt

- It was necessary to concentrate on key priorities, by undertaking a rigorous 'pruning' of plans, which excluded uncosted and unaffordable promises. This meant that even a strongly favoured project – to create parks with 'green flag' for cleanness – had to be scaled back.
- Competing policy objectives had to be reconciled and prioritised. A political objective of offering 'free first' car permits (free for the first car in the household) was in contradiction with the desire to reduce total numbers of vehicles in the borough and cut pollution. Instead, free car permits were made available only to low emitting vehicles.
- Effective financial planning must involve all relevant partners, especially regarding social care.
- Achieving savings through providing shared services and joint offices involves serious practical difficulties, because different public bodies operate different financial management and devolved decision-making systems.

Factors in success

- There has been political commitment to the MTFS, along with buy-in from all chief officers.
- There is a clear framework on what to do, who does it and how it links to the policy framework.
- There is an absolute commitment to replenishing balances.
- There is a clear corporate strategy.
- There is near-permanent internal challenge to strategies and budgets.
- There is high quality use of data, seeking always to answer the question, what does expenditure buy us?
- There is a rigorous approach to the efficiency programme.
- There is now government certainty on grant.
- Members' 'star chambers' have been genuinely challenging.

Sources

- Interviews with Duncan McLeod, Director, Finance and Corporate Resources and Peter Stachniewski, Deputy Director, Finance and Corporate Resources.
- Annual Audit and Inspection Letter: Brent London Borough Council, Audit Commission, February 2008.
- Corporate Assessment: Brent London Borough Council, Audit Commission, April 2006.

The Audit Commission

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