

Report to Bristol City Council:

**Review of 2016/17**

**Forecast Budget Deficit**

**Executive Summary**

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Issued by  
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# Report to Bristol City Council

## Review of 2016/17 Forecasted Deficit

### Executive Summary

- a. Following the Mayoral and Council elections in May 2016, analysis of the Council's 2015/16 outturn and routine financial monitoring at the end of month 3 (June) in the 2016/17 financial year indicated that Bristol City Council (BCC) was facing a budget deficit of £29.1m. This was reported formally to Cabinet on 6 September 2016 and I was appointed in October 2016 to undertake an independent review of the causes and to make recommendations for improvement in financial management and reporting to promote better transparency and accountability. The Terms of Reference of my Review are set out in Appendix A. They emphasise as part of the context a significant turnover of senior officers within the Council over recent years.
- b. My review has taken the form of an examination of documents and interviews with key personnel. I have been assisted throughout by officers of the Local Government Association and have received full co-operation from officers, the Mayor and members of Bristol City Council and consultants appointed to assist it. I am grateful to all concerned for their support. My review has however been handicapped by the fact that many of those holding key positions during the period it has been necessary for me to examine have since left the Council and have therefore been unavailable for interview.
- c. This is my report and others bear no responsibility for its findings and recommendations.
- d. My Terms of Reference required me to focus on ten key areas listed as the bullet points in Appendix A. In essence, these instructed me to report and comment on the following issues:
  - Change Programme Reporting
  - Review and Understanding of Delivery Risks and Implementation Plans
  - Cost Drivers and Reasons for Spending Pressures
  - Business Cases and Assumptions Supporting the Change Programme
  - Budget Review Processes
  - Foreseeability of 2015/16 and 2016/17 Budget Problems
  - Mitigation of 2015/16 Budget Pressures
  - First Quarter Mitigation of 2016/17 Budget Pressures
  - The Voluntary Severance Programme
  - Improving Reporting and Transparency
- e. The Change Programme referred to was the bringing together of organisational development activity dating back to 2012 and was aimed at securing significant cost savings. I have structured my report by dealing in turn with each of the issues itemised in the bullet points at paragraph d. This has necessarily involved some repetition, for which I apologise. But I also consider that my review has raised important wider issues concerning the management culture within the Council and the quality, role and status of the Council's Finance function which I have addressed in an additional Key Messages section.
- f. In summary, I have concluded as follows:
  - (1). The underlying financial pressures facing Bristol City Council in the early part of 2016/17 were not of the Council's own making. They arose from a combination of large reductions in Government grant income, legislative changes, cost increases especially in relation to the provision of adult social care, and unavoidable additional demand for Council services.
  - (2). These pressures were similar to those facing most, if not all, large local authorities in

- England and were well documented in reports to the Mayor and BCC Members.
- (3). But Bristol did not address these problems early enough or with sufficient rigour.
  - (4). The Council's Medium Term Financial Strategy in 2014/15 provided for three different savings streams. Together they were intended to deliver recurring savings of £112m by the end of 2016/17 but fell short of this ambition.
  - (5). By far the largest element of the planned savings was the Single Change Programme designed to secure £64m in savings over a three year period. It failed to do so.
  - (6). The detailed Business Case for the Change Programme appears to have been written some months after it began and is flawed in important respects. It cannot properly be described as a Business Case. Moreover, I have been unable to ascertain which if any Members saw it.
  - (7). The governance arrangements in respect of the Change Programme had many positive features but its strengths were outweighed by its weakness. For example:
    - The size of the Change Board responsible for overseeing the Programme, with over 30 members, was far too large.
    - The absence of any central role for the Finance directorate meant that
      - o financial information presented to the Change Board could not be relied upon;
      - o budget monitoring reports to Cabinet were presented on a different basis to Change Programme updates; and
      - o the Change Board was wholly disconnected from the Council's budget preparation process.
    - It would have been helpful for periodic independent review of claimed savings to have been built into the governance arrangements from an early stage.
  - (8). The Change Programme was primarily managed as an organisational development programme with a stronger focus on the delivery of projects than on the realisation of savings.
  - (9). There were business plans for specific savings initiatives and these were considered by the Change Board but they varied in quality, were often stated only at a very high level and were not consistent in the depth of analysis and detail underpinning them.
  - (10). Reporting on the performance of the Change Programme, both internally to the Change Board and formally to the Mayor and elected council Members, was inadequate in important respects. For example:
    - Reported savings were not reconciled with information derived from the Council's financial systems;
    - Reports were mostly lacking in analysis or advice, and often difficult to follow; and
    - Reports did not properly explain delivery risks or accurately reflect performance.
  - (11). Reports on the progress of the Change Programme were consistently over-optimistic throughout 2014 and 2015, even in the face of contrary knowledge within the Council, to the extent that Members were undoubtedly misled.
  - (12). The Mayor and BCC Members were not alerted to the significance of key information contained within the reports presented to them, including the implications of the likely non-delivery of planned savings being rated as amber or red.
  - (13). Senior officers did not understand the implications of slippage in the delivery of the Change Programme and seemed unaware of key assumptions within the budgets which authorised them to incur expenditure.

- (14). Business plans presented to the Change Board and to Cabinet seeking authority to incur expenditure on saving initiatives were seldom accompanied by implementation plans. In most cases, no such plans existed or were lacking in substance.
- (15). Monitoring of the investment on savings projects was not robust and expenditure has been under-estimated in corporate reports. It is currently believed that £33.5m provided centrally to fund Change Programme initiatives will be overspent by £3.4m, despite £14.1m of redundancy costs having been met from other central reserves.
- (16). There was a lack of transparency over how this expenditure was reflected in budget reports.
- (17). There was no prioritisation of how funds made available for investment in savings programmes should be allocated.
- (18). The risk of double counting of savings that might be attributed to more than one project was not acknowledged or dealt with until a late stage.
- (19). Officers consistently misjudged the complexity of delivery of savings initiatives, and hence the risks associated with agreed Change Programme savings, and failed to revisit the original business case when these risks materialised.
- (20). There is a distinction to be drawn between savings being managed by Directorates and those being managed centrally as part of the Change Programme. Planned savings allocated to Directorates were mostly, but not in all cases, delivered. Where responsibilities were clear they were taken seriously.
- (21). Failure to deliver planned savings in 2014/15 and 2015/16 exacerbated the pressure on the Council's 2016/17 budget.
- (22). The outturn for both 2014/15 and 2015/16 was balanced only as a result of non-recurring savings. In both years, the most important of these was a saving in capital financing costs, mainly resulting from a large underspend on the capital budget.
- (23). The actions taken in the latter part of 2015/16 and the first quarter of 2016/17 to mitigate budget pressures were largely panic measures. There were no delivery plans for these measures which are now capable of being assessed, but they proved effective.
- (24). On 4 August 2015, the Change Board was told that only £23.2m of the planned £64m Change Programme savings had been secured. At that stage, substantial non-delivery of the £112m agreed MTFs savings was wholly predictable.
- (25). Of the claimed £23.2m Change Programme savings for 2016/17, secured by 4 August 2015, £21.1m was accounted for by the restructure programme. This had originally been intended to deliver savings of £28m.
- (26). The restructure programme had also been intended to deliver £22.0m of these savings in 2014/15. In fact it secured only £15.8m in that year, not all of which was attributable to the General Fund.
- (27). Throughout the latter part of 2015 and the early part of 2016 there was a growing awareness among senior Council officers that the Change Programme was not delivering and that the pressures on the 2016/17 budget would be acute. Directorates, assisted by external consultants, sought to produce the savings options needed to bridge the anticipated budget gap but failed to identify sufficient options to do so.
- (28). A number of the measures that were identified were not included in the papers issued for public consultation on the 2016/17 budget because they were considered to be politically sensitive.
- (29). Review by Members and by senior officers of the spending and savings proposals and assumptions underpinning the Mayor's 2016/17 budget proposals was inadequate:

- The council failed to consider the risk involved in not undertaking a full review of the Medium-Term Financial Strategy (MTFS).
  - Although there was some review of the 2016/17 budget assumptions this was overly focused on new spending pressures.
  - There was no effective review of the key budget assumption concerning delivery of previously agreed savings.
- (30). However, the imbalance in the 2016/17 budget was foreseeable and was in fact foreseen. Senior officers were aware from 19 January 2016 of a likely budget gap of £43m and knew by 19 February 2016 that assumed savings in 2014/15 and 2015/16 totalling £18.9m and reflected in the base budgets for 2016/17 had not in fact been delivered.
- (31). By 8 March 2016 officers believed there was a budget gap of £54.3m, or £28m-£35m after allowing for all the available measures to address it, but Members were not informed of this and continued to receive reassuring reports throughout March and April 2016.
- (32). There was a tacit understanding within the Senior Leadership Team (SLT) that contentious decisions should not be asked of politicians before the Mayoral and Council elections scheduled for May 2016.
- (33). The 2016/17 budget, approved by the Council on 16 February 2016, assumed that all previously agreed savings had been delivered in full. This assumption was false.
- (34). The 2016/17 budget also included unallocated savings totalling £32.1m, a large proportion of which were, in addition, unidentified.
- (35). At no stage did the Council's corporate risk register adequately reflect either the probability or the impact of the non-delivery of planned savings.
- (36). By the beginning of the 2016/17 financial year senior officers were assuming, but did not inform Members, that a balanced outturn in that year would most probably be achieved through the use of reserves. This can at best be described as artful.
- (37). Informal reporting to the Mayor and Members works reasonably well and has got better in recent months. But formal reporting still needs to be further improved. For example:
- During the period covered by my review reports to Members were often opaque and displayed a tendency to "bury information in big reports".
  - Financial reporting has not in the past been timely enough, though budget monitoring is now being reported monthly.
  - The quality of reporting has been poor, with reports often devoid of analysis or advice, though this too has greatly improved in recent months.
- (38). Over a sustained period of time, officers did not display the degree of professionalism that the Mayor and BCC Members were entitled to expect.
- (39). There were other serious weaknesses in the administration and management of the Council during the period covered by my review. Good progress has been made in addressing some of them but there are remaining issues which the new chief executive will need to consider. For example:
- There are still weaknesses in basic administration and document management.
  - Reporting at officer level continues to place excessive reliance on lengthy PowerPoint presentations which are difficult to follow for those not present.
  - Internal communications have improved, but from a very low base. The Council remains silo based and this problem has in the past been exacerbated by strained personal relationships among senior officers.

- The Council has not in the past had a healthy management culture. During the period covered by my review there was a widespread belief that SLT did not want to hear bad news.
  - I have also seen evidence of high levels of stress and basic discourtesies and have heard reports of bullying, though the latter are not recent.
- (40). Addressing these difficult cultural issues will not be easy and it will take three to five years for any necessary changes to be embedded.
- (41). The Council also has a very weak Finance function and has experienced frequent staff changes at senior level. During the 2016/17 budget preparation process three different people held the post of s.151 officer. This was a significant contributory factor to the Council's financial difficulties.
- (42). A part of the weakness within the Finance Directorate arises from deficiencies in staff skills and understanding of their role.
- (43). This lack of understanding of the role of Finance extended beyond the Finance Directorate. It is therefore welcome that the Council's s.151 and monitoring officers are now full members of SLT.
- (44). The problems which prompted my appointment resulted from a serious collective failure of leadership.
- g. I must emphasise that individuals who may be identifiable from my report and who may feel that they are being unfairly criticised, implicitly or explicitly, have not been given a right of reply. My report and any action flowing from it needs to be read in that light. In particular, it would be wholly wrong for any individual to be singled out for censure, not simply because they have not been given an opportunity to put their case to me, but more importantly because I am in no doubt that the sequence of events described in this report represents a collective failure of leadership within the Council for which several people, including elected politicians, bear responsibility.

## Recommendations

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I am conscious too that much has changed within the Council over the last six months. The new Mayor, his colleagues and senior BCC Officers are more open about the difficulties they face and this has made it possible to take the steps needed to address them. The financial administration of the Council has improved so that Members may have confidence in the 2017/18 budget recommendations to be considered by the Council on 21 February 2017. I commend the Council for the progress it has made in a very short period of time. I nevertheless make the following recommendations for further action:

- (1). For future significant savings programmes, especially any involving projects which embrace more than one Directorate, the Council should ensure stronger governance arrangements and clearer Member oversight (paragraph 45).
- (2). Wherever possible, the Council should ensure that responsibility for the delivery of specific savings initiatives is allocated to Directorates so that ownership of savings programmes and accountability for them is clear (paragraph 66).
- (3). The Council should adopt a more disciplined, centrally driven approach to business cases supporting investment decisions or savings projects. There should be a standard template of what constitutes an acceptable business case and a standard procedure through which the template must be completed and approved (paragraph 65).
- (4). The Council should take steps to build on recent improvements in the quality of reporting and document management. Where necessary guidance should be issued, or training provided, to report authors emphasising the importance of clarity, transparency, analysis and advice (paragraph 121).
- (5). Members should be less tolerant of poor quality reports than they appear to have been in the past (paragraph 120).
- (6). Where they do not already exist, arrangements should be made for report authors to receive feedback from Member or senior officer discussion of their reports as a matter of routine (paragraph 113).
- (7). Relevant officers should be reminded of their responsibilities to keep backbench and Opposition Members properly informed (paragraph 125).
- (8). The incoming chief executive should be invited to consider and report on the steps needed to improve the management culture within the Council, recognising that any necessary changes will take three to five years to embed. There should be an emphasis on greater openness, professionalism, delegation, mutual respect and better internal communication, but with fewer large and lengthy meetings (paragraph 129).
- (9). The Council should take further steps to improve the quality of its Finance function, modernise its role and enhance its status. Relevant outstanding recommendations of the review commissioned in December 2015 should be actioned as a matter of urgency (paragraph 130).
- (10). The previous recommendation that the Council should “Develop a Competency Framework and agree the way forward re Assessment and Development centres” in relation to its Finance staff is overdue and should be given priority (paragraph 134).
- (11). This should be actioned alongside a review of the role and requirements of Business Partners as part of the current review of the Finance Directorate structure (paragraph 134).
- (12). The more timely reporting of budget monitoring information that has now been introduced should continue into the future. If the Council opts to return to quarterly budget monitoring and the first quarter report cannot be considered in July, there should be routine reporting in June or July of the position as at the end of May (paragraph 118).

- i. In conclusion, I would like to thank Mayor Marvin Rees, Interim Chief Executive Stephen Hughes and Bristol City Council for inviting me to undertake this review. I would also like to offer particular thanks to Beth White in the Chief Executive's office without whose tireless efforts in locating documents, assembling paperwork, obtaining responses to my queries and arranging meetings it would have been impossible for me to complete it. Despite the scale and depth of the difficulties dealt with in this report, the progress I have witnessed within the Council over recent months is reassuring. I wish the Council and the City well for the future.

A handwritten signature in black ink that reads "Steve Bundred". The signature is written in a cursive, slightly slanted style.

Steve Bundred  
9 February 2017