

**Decision Maker:** Executive

**Date:** 24<sup>th</sup> March 2015

**Decision Type:** Non-Urgent Executive Non-Key

**Title:** BUDGET MONITORING 2014/15

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**Chief Officer:** Director of Finance

**Ward:** Borough Wide

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1. Reason for report

- 1.1 This report provides the fifth budget monitoring position for 2014/15 based on expenditure and activity levels up to the end of January 2015. The report also highlights any significant variations which will impact on future years as well as any early warnings that could impact on the final year end position.
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2. **RECOMMENDATIONS**

2.1 **Executive are requested to:**

- (a) consider the latest financial position;
- (b) note that a projected net underspend on services of £478k is forecast based on information as at January 2015;
- (c) consider the comments from the Director of Education, Care and Health Services, the Director of Transformation and Regeneration and the Director of Environment and Community Services as detailed in sections 3.2, 3.3 and 3.4;
- (d) agree to release £120k grant funding from Central Contingency for Helping People Home as detailed in para 3.5.2;
- (e) note a projected decrease to the General Fund balance of £1.1m to £18.9m as detailed in para 3.6.1;
- (f) note the Prior Year Adjustments totalling £1,220k as detailed in section 3.7;
- (g) note the Early Warnings as detailed in section 3.8;

- (h) note the full year cost pressures of £5.1m as detailed in section 3.9;**
- (i) agree the creation of an earmarked reserve for surplus rental income generated from properties used for temporary accommodation purchased with Payment In Lieu funds as detailed in section 4.3;**
- (j) recommend to Council the creation of a Financial Planning/Risk Reserve as detailed in section 4.4;**
- (k) agree the creation of an earmarked reserve for the Welfare Fund as detailed in section 4.5;**
- (l) identify any issues that should be referred to individual Portfolio Holders for further action.**

## Corporate Policy

1. Policy Status: Existing policy.
  2. BBB Priority: Excellent Council.
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## Financial

1. Cost of proposal: N/A
  2. Ongoing costs: Recurring cost.
  3. Budget head/performance centre: Council wide
  4. Total current budget for this head: £125m (excluding GLA precept)
  5. Source of funding: See Appendix 1 for overall funding of Council's budget
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## Staff

1. Number of staff (current and additional): 3,760 (per 2014/15 Budget), which includes 1,777 for delegated budgets to schools.
  2. If from existing staff resources, number of staff hours: N/A
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## Legal

1. Legal Requirement: Statutory requirement. The statutory duties relating to financial reporting are covered within the Local Government Act 1972; the Local Government Finance Act 1998; the Accounts and Audit Regulations 1996; the Local Government Act 2000; and the Local Government Act 2002.
  2. Call-in: Call-in is applicable
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2014/15 budget reflects the financial impact of the Council's strategies, service plans etc. which impact on all of the Council's customers (including council tax payers) and users of the services.
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## Ward Councillor Views

3. Have Ward Councillors been asked for comments? N/A.
4. Summary of Ward Councillors comments: Council wide

### 3 COMMENTARY

3.1.1 The table below provides a breakdown of the 2014/15 budget and projected spend as at end of January 2015:-

<b>Portfolio</b>	<b>2014/15 Original Budget £'000</b>	<b>2014/15 Latest Budget £'000</b>	<b>2014/15 Projected Outturn £'000</b>	<b>2014/15 Variation £'000</b>
Care Services	104,941	106,345	107,277	932
Education	4,649	4,965	5,064	99
Environment	32,699	33,572	33,393	Cr 179
Public Protection & Safety	2,526	2,529	2,492	Cr 37
Renewal & Recreation	8,370	8,772	8,707	Cr 65
Resources	39,218	40,148	38,920	Cr 1,228
<b>Total Controllable Budgets</b>	<b>192,403</b>	<b>196,331</b>	<b>195,853</b>	<b>Cr 478</b>
Capital Charges and Insurance	16,827	16,943	16,943	0
Non General Fund Recharges	Cr 916	Cr 916	Cr 916	0
<b>Total Portfolio Budgets</b>	<b>208,314</b>	<b>212,358</b>	<b>211,880</b>	<b>Cr 478</b>
Contingency Provision	11,850	9,360	5,826	Cr 3,534
Interest on General Fund Balances	Cr 1,591	Cr 1,591	Cr 2,691	Cr 1,100
Other Central Items	Cr 6,308	Cr 6,308	Cr 389	5,919
General Government Grants	Cr 83,861	Cr 83,861	Cr 83,859	2
Collection Fund Surplus	Cr 2,964	Cr 2,964	Cr 2,964	0
Prior Year Adjustments	0	0	Cr 1,220	Cr 1,220
<b>Total Central Items</b>	<b>Cr 82,874</b>	<b>Cr 85,364</b>	<b>Cr 85,297</b>	<b>67</b>
<b>Total Variation</b>	<b>125,440</b>	<b>126,994</b>	<b>126,583</b>	<b>Cr 411</b>

3.1.2 A detailed breakdown of the Latest Approved Budgets and Projected Outturn across each Portfolio, together with an analysis of variations, is shown in Appendix 2.

### 3.2 Comments from the Director of Education, Care and Health Services

#### Care Portfolio:

3.2.1 Members will know that across this year, containing costs has proved a challenge, particularly in our older people's services. We end the year some 50 placements over budget but actually with no nett increase across the year in spite of the issues with our partner, King's College Hospital. These residents account for a significant proportion of the pressures moving into next year. We are content that Panel processes are now robust and we are grateful to the Members who have joined panels from time to time and helped with the improvement process.

3.2.2 In the coming year, the new front door arrangement will continue to contain and we expect divert residents early from our statutory services giving individuals more control over their lives. We continue to see outstanding work from our commissioners, continuing to secure outstanding value for money in our placements and making a significant contribution to ameliorating some of the pressures.

3.2.3 Housing continues to exert very considerable pressures on our budgets and although covered by contingencies following the very early recognition of these pressures, Members will note that we are not predicting any significant changes in pressures from those seeking temporary accommodation and so it is important that Manorfields comes on stream at the earliest opportunity to help control these pressures.

3.2.4 Children's Social Care has returned an overall balanced budget. However, we continue to see pressures from the unfunded pressures passed to local government from Whitehall including care leavers and those with no recourse to public funds. Once again, we see very good value for money in our placement costs, and, for a number of children, strong financial support from the CCG.

### **Education Portfolio:**

3.2.5 Managers in Education have continued to control their budgets effectively, and in very challenging circumstances. The appendices give further detail of how costs have been contained across the year. Schools continue to benefit from funding changes which will see more money in schools' budgets in the coming year than ever before.

3.2.6 Grant condition changes within Adult Education make it increasingly difficult to manage cost pressures in such a way as to fulfil the grant conditions. A review remains in place to look at the best way forward for this very high quality service, but the nature of our provision may need to change in the coming year to better reflect our local priorities. Market testing did not find any particular solution and officers will need to return to the PDS later in the year with further options for the Portfolio Holder.

3.2.7 The implementation of the SEND reforms continues to go well. However, it is the case that we have high numbers of students with statements and we should see this number decline through the review process as schools accept greater responsibility for meeting individual needs. We also continue to look across to our partners at the CCG to ensure health needs are fully addressed in all new plans and have had some very good support. Nonetheless, Members will want to be aware that several very high cost placements have been required in the latter half of the year, increasing pressures of budgets resulting in a small projected overspend. Management continue to monitor these provisions.

### **3.3 Comments from the Director of Transformation and Regeneration (Resources Portfolio)**

3.3.1 The £430k overspend within Strategic Property Services mainly relates to a shortfall in rental income and includes the projection for investment income which is a shortfall of £792k.

3.3.2 The Regeneration Investment Fund for investment in property (now part of the Economic Development and Investment Fund), was created to identify key investment opportunities which would also assist in the regeneration ambitions of the Council. The target financial return for this fund is £2.025m in 14/15.

3.3.3 Four properties (72 - 76, 95, 98, 104 - 108 High Street) along with 145-153 High Street have been purchased costing £28.7m. The FYE annual income expected from these properties is £1,669k. A further property was recently purchased for £3.75m, which will achieve rental income of £250k in the full year and £42k in 2014-15. The total projected income for 2014/15 is £1,233k resulting in a shortfall of £792k. The full year budget short fall has reduced to £106k and further acquisitions are being considered. The full rent contractually payable under the leases is being received and further increases cannot be achieved until future rent reviews become due.

3.3.4 Bromley should receive additional rent share income from The Glades once the Queens Gardens development is completed. INTU estimate that this additional income would be £17k in 2015, £78k in 2016, £82k in 2017, rising to £93k in 2020. Bromley's contribution

to this project will be funded from the Economic Development and Investment Fund and a sum of £990k has been allocated for this purpose.

### **3.4 Comments from the Executive Director of Environment and Community Services**

#### **Environment Portfolio:**

- 3.4.1 Overall, the controllable budget for the Environment Portfolio is projected to be underspent by £179k.
- 3.4.2 The projected overspend in Waste Services is primarily due to the decline in the tonnage of paper collected and the increase in the tonnage of residual waste collected. Both of these factors are reflected on the national stage and are largely outside our control. Additional net costs of £743k are included in the 2015/16 budget to reflect the full year effect of these variances.
- 3.4.3 The overspend of £321k within Waste Services is more than offset by underspends of Cr £500k across other areas of the portfolio budget.

#### **Renewal and Recreation Portfolio**

- 3.4.4 Overall, the controllable budget for the Renewal and Recreation Portfolio is projected to be underspent by £65k.
- 3.4.5 As part of the budget setting process for 2014/15 a budget savings target of £150k was included in the culture budget. To date, £90k savings have been identified and an under spend within staffing has left a net balance of £40k. Further savings have now been identified to ensure that the culture budget will be balanced from April 2015 onwards.
- 3.4.6 The full years savings of £300k built into the library budget will not be realized until April 2015 due to two factors; the first is that a detailed consultation has been undertaken during the last few months with both the public and the library staff over options for reducing opening hours and the second is that in order to achieve the reduction in staffing, it is necessary to install the RFID system in the remaining 9 libraries. This installation will be completed during the next month and therefore only part year savings of £100k will be achieved for 2014/15.
- 3.4.7 The overspend of £220k within Recreation is more than offset by an underspend of Cr £285k within Planning.

### **3.5 Central Contingency Sum**

- 3.5.1 Details of the variations in the 2014/15 Central Contingency are included in Appendix 3.
- 3.5.2 A late notification of grant totalling £120k is held in Central Contingency for Helping People Home. Executive are requested to approve release of this funding to Care Services Portfolio to enable it to be spent by the end of the financial year.

This new ring-fenced grant was announced at the end of January 2015 by the Department for Communities and Local Government (DCLG) and can only be used for the following purposes:

- a) help people return to their home from hospital when it is appropriate to do so
- b) reduce the risk of avoidable admissions or readmissions into hospital from the over 65's or those in receipt of social care

The grant has to be spent by the end of the financial year; any unspent grant funding will have to be returned. In order to access the grant regular reporting back to DCLG needs to take place on the type of interventions and the impact that they have. Officers have put plans in place in order to be able draw on this funding if agreed.

- 3.5.3 A sum of £558k has been set aside from underspends in the Central Contingency for the purchase of three split-bodied waste vehicles, as approved by Council on 23<sup>rd</sup> February 2015.
- 3.5.4 A sum of £77k has been set aside from underspends in Central Contingency to fund the Bromley Youth Music Trust Reserve to enable savings in the 2015/16 budget to be realised, also approved by Council on 23<sup>rd</sup> February 2015.
- 3.5.5 The 2014/15 Central Contingency contains various provisions which reflect uncertainty around potential costs, grants and service pressures. As detailed in Appendix 3, a total variation of £3.5m credit is currently expected, as some of these provisions will no longer be required in this financial year. Subject to approval, this will be used to contribute to a Financial Planning/Risk Reserve as detailed in section 4.4.
- 3.5.6 As in previous years, any further underspends may be utilised to provide one-off funding for the Council's Investment Fund, which is used to generate ongoing income for the Council.

### 3.6 General Fund Balances

- 3.6.1 The level of general reserves is currently projected to reduce by £1.1m to £18.9m at 31<sup>st</sup> March 2015. Further details are provided below:

	2014/15
	Projected
	Outturn
	£'000
General Fund Balance at 1st April 2014	-20,000
Total Variation (para 3.1.1)	-411
Adjustment to Balances:	
Carry forwards (funded from 2013/14 underspends)	1,554
Projected General Fund Balance 31st March 2015	<b>-18,857</b>

### 3.7 Prior Year Adjustments resulting in a Credit Provision in the Accounts of £1,220k

- 3.7.1 Provisions made in prior years for Children's Social Care are no longer required and have therefore been released in 2014/15 resulting in a credit of £620k. This includes:

- 1) Adjustments to budgets due to DSG contribution movements have been resolved and this provision will no longer be required.
- 2) General provisions to cover late notifications of placements/inaccurate data collection

3.7.2 Provisions made in prior years for Learning Disabilities are no longer required and have therefore been released in 2014/15 resulting in a credit of £600k. This mainly relates to a dispute with a provider regarding back payment of their incorrect invoicing which has now been resolved and is therefore no longer required.

### 3.8 Early Warnings

#### 3.8.1 Split-bodied waste vehicles

Due to the time required to procure the three split-bodied waste vehicles, it is likely that that a request will be made to the Executive to carry forward the £558k funding allocated from underspends in contingency as detailed in para 3.5.3 above.

#### 3.8.2 Repairs and maintenance

A total net underspend of £252k is currently projected on repairs and maintenance budgets across all portfolios. Since 2001, the Chief Property Officer has had delegated authority to carry forward revenue underspends on landlord building maintenance on the basis that he will continue to seek to contain total expenditure within approved annual budget, As in previous years, it is anticipated that some or all of this underspend will be carried forward to 2015/16.

### 3.9 Impact on Future Years

3.9.1 The report identifies expenditure pressures which could have an impact on future years. The main areas to be considered at this stage are summarised in the following table:

				<b>2014/15</b>	<b>2015/16</b>
				<b>Budget</b>	<b>Impact</b>
				<b>£'000</b>	<b>£'000</b>
<b>Care Services Portfolio</b>					
Assessment & Care Management				24,028	1,916
Learning Disabilities - Adult Social Care				6,633	233
Childrens Placements				28,811	268
Adults with Learning Disabilities				23,965	369
Adults with Mental Health Needs				6,349	70
Information and Early Intervention				1,385	41
					<b>2,897</b>
<b>Education Portfolio</b>					
Adult Education				Cr 601	269
Education Services Grant				Cr 2,732	920
					<b>1,189</b>
<b>Resources Portfolio</b>					
Operational Property Services				371	191
Investment Income				Cr 6,356	106
Mayoral				178	Cr 32
					<b>265</b>
<b>Environment Portfolio</b>					
Waste				8,573	<b>700</b>
<b>TOTAL</b>					<b>5,051</b>

### 3.10 The Schools' Budget

3.10.1 There is currently a projected overspend of £257k on the Schools' Budget. Overspends and underspends must be carried forward to the following year's Schools' Budget and



have no impact on the Council's General Fund. This projected overspend will be carried forward and offset against the £8.9m underspend carried forward from previous years. Details of the 2014/15 monitoring for the Schools' Budget will be reported to the Education Portfolio Holder.

### **3.11 Interest on Balances**

3.11.1 A rate of 1% was assumed in the 2014/15 budget for interest on new investments and the budget for net interest earnings was set at £1,591k. Interest rates still show no real sign of increasing and Capita now expect the Bank of England base rate to begin to rise slowly from early in 2016. There have been no improvements to counterparty credit ratings, which means that the restrictions to investment opportunities that followed ratings downgrades in recent years have still been in place. However, the increases in the limits for the two part-nationalised banks (Lloyds and RBS) approved by the Council in October, together with higher rates from longer-term deals placed with other local authorities, higher average balances than anticipated and the strong performance of the CCLA Property Fund investment, has resulted in a considerable improvement in interest earnings in 2014/15. At this stage, it is estimated that the 2014/15 outturn for interest earnings will be around £1.1m above budget. A total of £10m was invested in two diversified growth funds in late-December and, if this produces good returns in the March quarter, the surplus could be larger. Additional income of £1.2m is included in the 2015/16 budget.

## **4 EARMARKED RESERVES**

### **4.1 Investment Fund and Growth Fund (formerly Economic Development & Investment Fund)**

4.1.1 A detailed analysis of the former Economic Development & Investment Fund, dating back to its inception in September 2011, was included in a report to the September meeting ("Acquisition of Investment Properties"). Total funding of £66.1m was placed in that earmarked reserve to contribute towards the Council's economic development and investment opportunities. In November 2014, £10m was set aside in a new reserve (The Growth Fund) to support growth initiatives in Biggin Hill, the Cray Valley and Bromley Town Centre. A total of £34.4m has been allocated to date from the former Economic Development and Investment Fund (now known as the Investment Fund), mainly on the acquisition on investment properties, and the uncommitted balances currently stand at £21.7m for the Investment Fund and £10m for the Growth Fund.

4.1.2 The 'Civic Centre for the Future' report elsewhere on the agenda requests Executive to approve an allocation of £50k from the Investment Fund for potential work required around the Civic Centre site.

### **4.2 Invest to Save Fund**

4.2.1 This earmarked reserve was approved by Council in October 2011, with an initial allocation of £14m, to enable "loans" to be provided for Invest to Save initiatives, with advances to be repaid within a "reasonable" period and on-going revenue savings to contribute towards reducing the budget gap. In February 2013, the Executive agreed that the one-off Council Tax Freeze grant in 2012/13 be added to the Fund, bringing the total balance up to £17,304k. Five schemes have been approved to date and, as at 31st March 2014, the actual balance on the Fund stood at £15,975k. More detail on this was provided to the June meeting in the Final Accounts report.

### **4.3 Payment in Lieu Reserve for Temporary Accommodation**

- 4.3.1 On 24<sup>th</sup> July 2013, Executive approved the use of £1m Affordable Housing Payment In Lieu (PIL) funds for the purchase of properties for Temporary Accommodation. In total five properties (all 2 bedrooms) have been purchased; three in January 2014 and two in April 2014. These properties are managed on behalf of LBB by Orchard and Shipman.
- 4.3.2 The three January purchased properties were fit to be used as temporary accommodation at the end of May 2014 with one being occupied in May 2014 and the other two in July 2014. One of the April purchased properties was leased out straight after purchase and the other one was ready at the start of June and leased at the end of June 2014. All five properties are now being fully utilised, and are projected to generate a part-year net surplus rental income of £28k.
- 4.3.3 Executive are requested to approve the creation of an earmarked reserve for the net surplus income, to be used for the provision of further affordable housing and repairs and maintenance, as detailed in the original report.

### **4.4 Financial Planning/Risk Reserve**

- 4.4.1 The 2015/16 council tax report identified the latest financial projections and an increasing future year's budget gap due to the impact of inflation, service cost pressures and ongoing significant reductions in government funding during this austerity period. After allowing for savings reflected in the 2015/16 Budget further savings of over £50m per annum are required by 2018/19. Despite the recent significant improvements in the current economic situation the high level of public debt and the government's plans to achieve a budget surplus will lead to significant further reductions in government funding particularly as health and education remain 'protected' by central government (even if an alternative Government was elected there would be plans to eliminate the national budget deficit).
- 4.4.2 A recent survey indicated that more than half of council's say they will not have enough money to provide essential services in the next financial year. The Institute for Fiscal Studies advise that the worst of UK spending cuts are still to come (with 60% of cuts are still to come and public spending, as a percentage of GDP, set to fall to its lowest level for 80 years by the end of the decade).
- 4.4.3 This report identifies under spends in 2014/15 relating to prior year adjustments, early achievement of savings as part of 2015/16 Budget, departmental spend and the council's central contingency sum. The under spends from the central contingency sum mainly relate to ongoing action to contain growth pressures, stringent cost controls, effective management of risk, effective use of government funding and meeting income targets.
- 4.4.4 In previous years Members have set aside monies from overall underspends to support funding of invest to save initiatives, support economic growth and provide investment monies to achieve an increase in sustainable income for the Council which helps protect key services.
- 4.4.5 The 2014/15 final outturn report in June will seek to identify any resources available to increase the Council's Investment Fund. There remains a need to also consider using monies from the overall underspends to provide a new Financial Planning/Risk Reserve. The purpose of this reserve would be to provide a buffer to deal with the impact of the ongoing budget gap and possible utilisation of the reserve to support future years

budgets. Although this reflects one off monies, it will provide transitional support given the transformational challenges facing the Council and the need to become an organisation with considerable fewer resources in the future. The future utilisation of the reserve to support future year's budgets will be an issue for Executive.

- 4.4.6 Executive are requested to recommend to Council the creation of a Financial Planning/Risk Reserve with funding of £5m from the 2014/15 underspends. Any request for funding relating to the Council's Investment Fund will be reported to Executive in June as part of the 2014/15 Outturn report.
- 4.4.7 These actions will help ensure that the council is better placed to meet the future years budget gap and any future opportunity for increasing investment income will also help provide a more sustainable financial outcome for the future.

## **4.5 Welfare Fund Reserve**

- 4.5.1 Responsibility for the Welfare Fund transferred from the DWP in April 2013, with funding announced for 2013/14 and 2014/15. In December 2013, the Local Government Settlement indicated that the £978k funding in 2014/15 would not continue into 2015/16.
- 4.5.2 In considering the future of the Welfare Fund in July 2014, the Portfolio Holder for Resources approved the creation of a 'White Goods and Furniture Scheme'. This reflects a restriction of the current scheme, and £450k funding has been included in the 2015/16 budget on the basis that these costs will be incurred by the Council in meeting its statutory housing responsibilities.
- 4.5.3 Executive previously approved a carry forward of underspends in the welfare fund from 2013/14 of £442k. The scheme has also been restricted in the current year to reflect the ongoing loss of future funding resulting in an estimated underspend of £400k in 2014/15.
- 4.5.4 The Government announced in January 2015 the reduction in discretionary housing payments of £174k for 2015/16 (reduction of 27%). The planned implementation of universal credit from December 2015 combined with loss of government funding for the welfare fund and reductions in discretionary housing payments funding whilst the national welfare reforms continue create a significant financial risk to the Council. On that basis, Executive are requested to agree to create a Welfare Fund reserve to help mitigate against such financial risks over the next few years as the welfare reforms continue.
- 4.5.5 Executive are requested to approve the creation of a Welfare Fund earmarked reserve for this scheme, funded from the underspend in 2014/15 (currently projected to be £400k), and the £442k underspend carried forward from 2013/14.

## **5. POLICY IMPLICATIONS**

- 5.1 "Building a Better Bromley" refers to the Council's intention to remain amongst the lowest Council Tax levels in Outer London and the importance of greater focus on priorities.
- 5.2 The "2014/15 Council Tax" report highlighted the financial pressures facing the Council. It remains imperative that strict budgetary control continues to be exercised in 2014/15 to minimise the risk of compounding financial pressures in future years.

## 6. FINANCIAL IMPLICATIONS

- 6.1 These are contained within the body of the report with additional information provided in the appendices

<b>Non-Applicable Sections:</b>	Legal, Personnel
Background Documents: (Access via Contact Officer)	Financial Management Budget Monitoring files across all Portfolios.  Provisional final Accounts - Executive 10 <sup>th</sup> June 2014  Draft 2014/15 Budget and Update on Council's Financial strategy 2015/16 to 2017/18 - Executive 15 <sup>th</sup> January  2014/15 Budget Monitoring file held by Technical and Control Finance Section