

**Decision Maker:** EXECUTIVE

**Date:** Wednesday 28 November 2018

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

**Title:** BUDGET MONITORING 2018/19

**Contact Officer:** Tracey Pearson, Chief Accountant  
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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 second budget monitoring position for 2018/19 based on expenditure and activity levels up to the end of September 2018. 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. **RECOMMENDATION(S)**

2.1 **Executive are requested to:**

- (a) consider the latest financial position;
- (b) note that a projected net overspend on services of £1,506k is forecast based on information as at September 2018;
- (c) consider the comments from Chief Officers detailed in Appendix 2;
- (d) note a projected variation of £98k credit from investment income as detailed in sections 3.5 and 3.6;
- (e) note a projected variation of £1,454k in the Central contingency, as detailed in section 3.2;
- (f) note a projected reduction to the General Fund balance of £1,085k as detailed in section 3.3;

- (g) agree to the release of £165k from the 2018/19 Central Contingency relating to the cost of Local Elections as detailed in para. 3.2.2;**
- (h) agree to the release of £500k Improved Better Care Funding from the 2018/19 Central Contingency as detailed in para. 3.2.3;**
- (i) approve the drawdown of £1.5m Health Funding to the CCG from Health and Social Care earmarked reserves as detailed in para. 3.9.1;**
- (j) recommend to Council that £3.5m be set aside in the Technology Fund earmarked reserve from underspends in the 2018/19 Central Contingency for the Council's IT Transformation scheme as detailed in para. 3.2.6;**
- (k) note the full year cost pressures of £5.2m as detailed in section 3.4;**
- (l) identify any issues that should be referred to individual Portfolio Holders for further action.**

## Impact on Vulnerable Adults and Children

1. Summary of Impact: None arising directly from this report
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## Corporate Policy

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

1. Cost of proposal: Not Applicable
  2. Ongoing costs: Recurring Cost
  3. Budget head/performance centre: Council wide
  4. Total current budget for this head: £205.6m
  5. Source of funding: See Appendix 1 for overall funding of Council's budget
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## Personnel

1. Number of staff (current and additional): 2,038 fte posts (per 2018/19 Budget) which includes 504 for budgets delegated 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 Local Government Act 2000, the Local Government Act 2002 and the Accounts and Audit Regulations 2015.
  2. Call-in: Applicable
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## Procurement

1. Summary of Procurement Implications: None arising directly from this report
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2018/19 budget reflects the financial impact of the Council's strategies and service plans which impact on all of the Council's customers (including council tax payers) and users of our services.
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Council Wide

### 3. COMMENTARY

#### 3.1 Summary of Projected Variations

3.1.1 The Resources Portfolio Plan included a target that each service department will spend within its own budget. Current projections show an overall net overspend of £1,506k within portfolio budgets and a £1,880k credit variation on investment income and central items.

3.1.2 A summary of the 2018/19 budget and the projected outturn is shown in the table below:

	2018/19 Original Budget £'000	2018/19 Latest Budget £'000	2018/19 Projected Outturn £'000	2018/19 Variation £'000
<b>Portfolio</b>				
Adult Care & Health	67,346	68,386	68,719	333
Education, Children & Families (inc. Schools Budget)	40,189	40,189	42,219	2,030
Environment & Community	30,546	30,003	29,862	Cr 141
Public Protection & Enforcement	2,424	2,478	2,360	Cr 118
Renewal, Recreation & Housing	13,970	14,134	14,083	Cr 51
Resources, Commissioning & Contracts Management	46,797	47,651	47,104	Cr 547
<b>Total Controllable Budgets</b>	<b>201,272</b>	<b>202,841</b>	<b>204,347</b>	<b>1,506</b>
Capital Charges and Insurance	12,056	12,056	12,056	0
Non General Fund Recharges	Cr 759	Cr 759	Cr 759	0
<b>Total Portfolio Budgets</b>	<b>212,569</b>	<b>214,138</b>	<b>215,644</b>	<b>1,506</b>
Income from Investment Properties	Cr 9,973	Cr 9,773	Cr 9,521	252
Interest on General Fund Balances	Cr 3,491	Cr 3,491	Cr 3,841	Cr 350
<b>Total Investment Income</b>	<b>Cr 13,464</b>	<b>Cr 13,264</b>	<b>Cr 13,362</b>	<b>Cr 98</b>
Contingency Provision	14,278	10,676	9,222	Cr 1,454
Funding for IT Strategy ( <i>Subject to Approval</i> )	0	3,500	3,500	0
Other Central Items	Cr 9,430	Cr 9,430	Cr 9,430	0
General Government Grants & Retained Business Rates	Cr 45,494	Cr 45,702	Cr 45,702	0
Collection Fund Surplus	Cr 7,852	Cr 7,852	Cr 7,852	0
<b>Total Central Items</b>	<b>Cr 48,498</b>	<b>Cr 48,808</b>	<b>Cr 50,262</b>	<b>Cr 1,454</b>
<b>Total Variation on Services and Central Items</b>	<b>150,607</b>	<b>152,066</b>	<b>152,020</b>	<b>Cr 46</b>
Prior Year Adjustments	0	0	Cr 328	Cr 328
<b>Total Variation</b>	<b>150,607</b>	<b>152,066</b>	<b>151,692</b>	<b>Cr 374</b>

3.1.3 A detailed breakdown of the latest approved budgets and projected outturn for each Portfolio, together with an analysis of variations, is shown in Appendix 3.

3.1.4 Chief Officer comments are included in Appendix 2.

#### 3.2 Central Contingency Sum

3.2.1 Details of the allocations from and variations in the 2018/19 Central Contingency are included in Appendix 4.

- 3.2.2 The Central Contingency includes a sum of £500k to meet the estimated cost of the local election in May 2018. On 11<sup>th</sup> July 2018, Executive agreed the drawdown of £400k as a provisional allocation pending the finalisation of total costs. All costs have now been finalised and Executive are requested to agree the drawdown of a further £165k (£565k in total) to fully fund costs relating to the local election. This includes the cost of election staff, room hire, delivery and collection of polling equipment, printing of ballot papers and postage.
- 3.2.3 The Central Contingency includes a sum of £873k which was allocated from the iBCF allocation pending the agreement of expenditure plans. £500k of this sum is now requested to be drawn down to offset some of the increased costs being identified within the Adult Social Care budgets this cycle.
- 3.2.4 On the 11<sup>th</sup> July 2018, Executive noted that a sum of £240k had been returned to the Central Contingency to reflect the full year effect of a reduction in tonnage during 2017/18. Due to the recent dry weather, there has been a one-off reduction in tonnage in 2018/19 and Members are requested to note that a further sum of £250k (total £490k) has been returned to the Central Contingency to reflect this.
- 3.2.5 On 2<sup>nd</sup> October 2018 the Government announced further funding for Adult Social Care of £240m nationally to ease NHS winter pressures. The extra funding, estimated to be in the region of £1.2m for Bromley, aims to help local authorities reduce pressures on the NHS by getting patients home quicker and freeing up hospital beds. This has been allocated to the Central Contingency and a formal grant determination, setting out any related grant conditions and confirming final allocations, is awaited. The utilisation of this funding will be reported to a future meeting of the Executive.
- 3.2.6 There will be a report on the future IT Strategy of the Council (IT Transformation), including any key infrastructure and robust business continuity requirements. As detailed in the Capital Programme Monitoring report elsewhere on the agenda, projections for capital expenditure within the current approved programme will result in the depletion of the Council's capital receipts in 2019/20 as well as requiring a contribution of £6m from the General fund in that year. Although the level of capital receipts is projected to increase in later years, there is little margin in the event of a significant new scheme being agreed or a large asset disposal not completing which may result in the use of external borrowing to fund the capital programme. On the basis that capital receipts are not available, at this stage, Members are requested to set aside a sum of £3.5m in the Technology Fund earmarked reserve from underspends in the 2018/19 Central Contingency. Details concerning the utilisation of these monies will be set out in the IT Transformation report.
- 3.2.7 The Central Contingency allows for proper financial planning and ensures that the Council is prepared for changes in financial circumstances. A prudent approach was adopted in considering the 2018/19 Central Contingency sum to reflect any inherent risks, the potential impact of any new burdens, population increases or actions taken by other public bodies which could affect the Council. If the monies are not required during the year then the general policy has been to use these for growth, investment and economic development to generate additional income, promote 'invest to save' and provide a more sustainable financial position. The latest forecast indicates that despite having a balanced budget in 2018/19 there remains a significant budget gap in future years that will need to be addressed.
- 3.2.8 Based on the latest financial position, there is a forecast net variation of £1,454k following a review of the remaining contingency provisions and an estimate of likely further drawdown requirements for the remainder of the year. This assumes that proposals detailed within this report are approved. The position will continue to be closely monitored and the utilisation of any further variations in the Central Contingency will be considered in future budget monitoring reports.

### 3.3 General Fund Balances

3.3.1 The level of general reserves is currently projected to reduce by £1,085k to £18,915k at 31<sup>st</sup> March 2019 as detailed below:

	2018/19 Projected Outturn £'000
<b>General Fund Balance as at 1st April 2018</b>	<b>Cr 20,000</b>
Net Variations on Services & Central Items (para 3.1)	Cr 374
	Cr 20,374
Adjustment to Balances:	
Carry Forwards (funded from underspends in 2017/18)	1,459
<b>General Fund Balance as at 31st March 2019</b>	<b>Cr 18,915</b>

### 3.4 Impact on Future Years

3.4.1 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:

	2018/19 Budget £'000	2019/20 Impact £'000	
<b>Adult Care &amp; Health Portfolio</b>			
Assessment & Care Management - Care Placements	22,423	585	<i>net of management action</i>
Learning Disabilities - Care Placements, Transport & Care Management	33,733	1,007	<i>net of management action</i>
Mental Health - Care Placements	6,169	323	
		1,915	
<b>Education, Children &amp; Families Portfolio</b>			
Adult Education	Cr 525	130	
Children's Social Care	34,414	2,100	<i>net of management action</i>
		2,230	
<b>Environment &amp; Community Portfolio</b>			
Parking	Cr 7,419	300	
		300	
<b>Renewal, Recreation &amp; Housing Portfolio</b>			
Housing Needs - Temporary Accommodation	6,241	732	<i>net of contingency drawdown</i>
Supporting People	1,013	Cr 94	
		638	
<b>Resources, Commissioning &amp; Contracts Management Portfolio</b>			
Legal Services - Legal/Counsel Fees & Court Costs	389	140	
		140	
<b>TOTAL</b>		<b>5,223</b>	

3.4.2 Given the significant financial savings that the Council will need to make over the next four years, it is important that all future cost pressures are contained and that savings are identified early to mitigate these pressures.

3.4.3 Further details are included in Appendix 5.

## **Investment Income**

### **3.5 Income from Investment Properties**

- 3.5.1 A deficit of £252k is projected for investment income which takes into consideration the following issues:
- (i) there is an income shortfall from Investment Fund properties of £297k, against an income budget of £5.9m. This shortfall partly relates to the vacated Argos shop on Market Square (£154k) and Russell and Bromley (£104k). Other net changes in leases have resulted in an underachievement of income of £39k.
  - (ii) the Glades Shopping Centre rental income is currently projected to be on budget for 2018/19 based on the minimum rent share expected and a late notification of an adjustment for the period 15th January 2017 to 14th January 2018. Accounts are supplied by Alaska UK quarterly in arrears. It is difficult to provide a precise forecast as LBB income is determined by the rental income from the shops and the level of contribution to any minor works. The budget for the Glades is £2.01m and the minimum rent share is £1.88m.
  - (iii) there is also a net overachievement of income currently projected on other Investment properties of Cr £45k. This forecast takes into account the apparent trend towards higher income from Biggin Hill Airport (£74k cr), offset by a deficit of rental income from various vacant properties (£29k).

### **3.6 Interest on Balances**

- 3.6.1 Despite the increase in the Bank of England base rate from 0.25% to 0.50% in November 2017 and then to 0.75% in August 2018, there has been relatively little impact on interest income from lending to banks and other counterparties. This is partly due to banks having the continued ability to borrow from the Bank of England at very low rates through its Term Funding Scheme, the strengthening of 'balance sheets' reducing the need to borrow, as well as the fact that expected increases in the base rate had already been 'priced in'.
- 3.6.2 In addition, the utilisation of the Investment Fund and Growth Fund as well as the Highways Investment scheme, have reduced the resources available for treasury management investment. However, the treasury management strategy was revised in December 2017 to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks. As a result, additional income of £600k was included in the 2018/19 budget.
- 3.6.3 At present, a surplus of £350k is projected for 2018/19 mainly as a result of the good rates obtained on fixed term investments made since the budget was set which have an average interest rate of 1.14%.
- 3.6.4 The Council's performance on treasury management is in the top 10% among local authorities. The Treasury Management Annual Investment Strategy for 2018/19 was reported to Council on 26<sup>th</sup> February 2018 and the Treasury Management Quarter 2 Performance 2018/19 and Mid-Year Review was reported to Executive, Resources and Contracts Policy Development and Scrutiny Committee on 22<sup>nd</sup> November 2018.

### **3.7 The Schools Budget**

- 3.7.1 Expenditure on schools is funded through the Dedicated Schools Grant (DSG) provided for by the Department for Education (DfE). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. Any overspend or underspend must be carried forward to the following year's Schools Budget.
- 3.7.2 There is a total projected overspend of £354k on DSG funded services which will be deducted from the £1,180k carried forward from 2017/18. £188k of the brought forward balance has been allocated to support the central DSG services in-year. The carry forward figure has been adjusted by the Early Year adjustment which has reduced the amount we received in 2017/18 by £166k. This gives us an estimated DSG balance of £472k at the end of the financial year.

### **3.8 Prior Year Adjustments**

- 3.8.1 Financial provision was made in the accounts for repayments to clients who had been charged for after-care under S117 of the Mental Health Act 1983. Given the amount of time that has now passed, and the likelihood of tracing further claimants diminishes, £328k of this provision is being released.

### **3.9 Drawdown of Health Funding from Earmarked Reserve**

- 3.9.1 A report to Executive on 30th November 2016 and Council on 12th December 2016 approved the drawdown of £3.5m of CCG funds from health and social care earmarked reserves (Section 75 Agreement funds) with a further, second tranche of £3.5m, being subject to a review on its use prior to finalising payment. The funding is for the CCG to significantly accelerate its key strategies to deliver not only transactional savings, but transformational changes that will deliver real reductions in acute hospital activity. To date only £2m has been drawn down and the CCG are requesting access to the remaining £1.5m of the first tranche of funding.

### **3.10 Investment Fund and Growth Fund**

- 3.10.1 Full details of the current position on the Investment Fund and the Growth Fund are included in the Capital Programme Monitoring – 2<sup>nd</sup> Quarter 2018/19 report elsewhere on the agenda. The uncommitted balances currently stand at £19.3m on the Investment Fund and £10.2m on the Growth Fund.

### **3.11 Financial Context**

- 3.11.1 The 2018/19 Council Tax report identified the latest financial projections and a future year budget gap due to the impact of inflation, service and cost pressures and ongoing significant reductions in government funding. Details were reported in the 2018/19 Council Tax report to Executive in February.
- 3.11.2 As reported, as part of the Council's financial strategy, a prudent approach has been adopted in considering the central contingency sum to reflect any inherent risks, the potential impact of new burdens, population increases or actions taken by other public bodies which could affect the Council. The approach has also been one of 'front loading' savings to ensure difficult decisions are taken early in the budgetary cycle. This has enabled a longer term approach to generate further income from the additional resources available as well as to mitigate against significant risks and provide a more sustainable financial position in the longer term.

3.11.3 The 2018/19 Council Tax report identified a budget gap of £38.7m per annum by 2021/22. The financial forecast and budget will be affected by inflation, changes in government funding and new burdens and realistically any future year overspends will need to be funded from alternative savings. It is therefore important to ensure that action is taken, where possible, to contain costs within budget which reduces the risk of the Council's budget gap increasing further thereby increasing the savings required in future years.

**4. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

4.1 The 2018/19 budget reflects the financial impact of the Council's strategies and service plans which impact on all of the Council's customers and users of our services.

**5. POLICY IMPLICATIONS**

5.1 "Building a Better Bromley 2016-2018" identifies the following key priority:

Ensure financial independence and sustainability through:

- Strict management of our budgets to ensure we live within our means;
- Working to achieve the benefits of the integration of health and social care;
- Early intervention for our vulnerable residents.

5.2 The 2018/19 Council Tax report highlighted the financial pressures facing the Council. It remains imperative that strict budgetary control continues to be exercised in 2018/19 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>	Personnel, Legal, Procurement
Background Documents: (Access via Contact Officer)	Provisional Final Accounts 2017/18 – Executive 21 <sup>st</sup> May 2018; 2018/19 Council Tax – Executive 7 <sup>th</sup> February 2018; Draft 2018/19 Budget and Update on Council's Financial Strategy 2019/20 to 2021/22 – Executive 10 <sup>th</sup> January 2018; Capital Programme Monitoring Report – elsewhere on agenda; Treasury Management Annual Investment Strategy 2018/19 – Council 26 <sup>th</sup> February 2018; Treasury Management Quarter 2 Performance 2018/19 and Mid-Year Review – Executive, Resources and Contracts PDS Committee 22 <sup>nd</sup> November 2018; Financial Management Budget Monitoring files across all portfolios.