

Decision Maker: EXECUTIVE

Date: Wednesday 27 March 2019

Decision Type: Non-Urgent Executive Non-Key

Title: BUDGET MONITORING 2018/19

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Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

1.1 This report provides the third budget monitoring position for 2018/19 based on expenditure and activity levels up to the end of December 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.

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 £648k is forecast based on information as at December 2018;
- (c) consider the comments from Chief Officers detailed in Appendix 2;
- (d) note a projected variation of £221k credit from investment income as detailed in sections 3.5 and 3.6;
- (e) note a projected variation of £826k in the Central contingency, as detailed in section 3.2;
- (f) note a projected increase to the General Fund balance of £1,068k as detailed in section 3.3;

- (g) agree to the release of £376k from the 2018/19 Central Contingency relating to additional savings and income from the Amey contract as detailed in para. 3.2.2;**
- (h) agree to the release of £200k for the staff merit award from the 2018/19 Central Contingency as detailed in para. 3.2.3;**
- (i) agree to the release of £200k for Civic Centre improvements from the 2018/19 Central Contingency to an earmarked reserve as detailed in para. 3.2.4;**
- (j) agree to the release of £500k for the Transformation programme from the 2018/19 Central Contingency to an earmarked reserve as detailed in para. 3.2.5;**
- (k) note the return to contingency of £227k of additional grant to the 2018/19 Central Contingency as detailed in para. 3.2.6;**
- (l) note the return to contingency of £500k of grant to the 2018/19 Central Contingency and the recommended use of this grant as detailed in para. 3.2.7;**
- (m) agree to set aside £187k of the Adult Social Care grant for the implementation of Pre Paid cards in 2019/20 as detailed in para. 3.2.8;**
- (n) note the release of £744k Adult Social Care grant income from the 2018/19 Central Contingency as detailed in para. 3.2.9;**
- (o) agree to the release of £1,190k for Social Care Investment to ease NHS Winter pressures from the 2018/19 Central Contingency as detailed in para. 3.2.10;**
- (p) recommend to Council that £7.5m be set aside in the Housing Investment Fund earmarked reserve from underspends in the 2018/19 Central Contingency for the Council's Housing transformation strategy as detailed in para. 3.2.12;**
- (q) note that reports elsewhere on the agenda request the drawdown of £2,489k relating to Housing from the central contingency as set out in para. 3.2.13;**
- (r) note the Dedicated Schools Grant balance, the increased funding and the use of that funding in 2019/20 as detailed in section 3.7;**
- (s) agree to allocate £75k from the Growth Fund to cover the costs of the West Wickham BID project as set out in para. 3.9;**
- (t) agree that a sum of £900k be set aside within an earmarked reserve as detailed in section 3.11;**
- (u) note the full year cost pressures of £6.5m as detailed in section 3.4;**
- (v) 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 £648k within portfolio budgets and a £3,175k credit variation on investment income, central items and prior year adjustments.

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
Portfolio				
Adult Care & Health	67,346	66,849	66,836	Cr 13
Education, Children & Families (inc. Schools Budget)	40,189	40,432	43,429	2,997
Environment & Community	30,546	29,822	29,133	Cr 689
Public Protection & Enforcement	2,424	2,478	2,259	Cr 219
Renewal, Recreation & Housing	13,970	16,508	16,572	64
Resources, Commissioning & Contracts Management	46,797	47,686	46,194	Cr 1,492
Total Controllable Budgets	201,272	203,775	204,423	648
Capital Charges and Insurance	12,056	12,056	12,056	0
Non General Fund Recharges	Cr 759	Cr 759	Cr 759	0
Total Portfolio Budgets	212,569	215,072	215,720	648
Income from Investment Properties	Cr 9,973	Cr 9,773	Cr 9,494	279
Interest on General Fund Balances	Cr 3,491	Cr 3,491	Cr 3,991	Cr 500
Total Investment Income	Cr 13,464	Cr 13,264	Cr 13,485	Cr 221
Contingency Provision	14,278	1,542	716	Cr 826
Funding for Housing Inv. Fund (<i>Subject to Approval</i>)	0	7,500	7,500	0
Other Central Items	Cr 9,430	Cr 5,230	Cr 5,476	Cr 246
General Government Grants & Retained Business Rates	Cr 45,494	Cr 45,702	Cr 47,202	Cr 1,500
Collection Fund Surplus	Cr 7,852	Cr 7,852	Cr 7,852	0
Total Central Items	Cr 48,498	Cr 49,742	Cr 52,314	Cr 2,572
Total Variation on Services and Central Items	150,607	152,066	149,921	Cr 2,145
Prior Year Adjustments	0	0	Cr 382	Cr 382
Total Variation	150,607	152,066	149,539	Cr 2,527

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 On 20 July 2016, Executive approved the award of the TFM contract to AMEY. The report highlighted that Cushman and Wakefield (C & W), would seek to grow the Council's net investment income by £1m within three years, on an incentivised basis. This was intended to be achieved through a combination of additional income and cost reductions, by taking a

proactive approach to managing the property portfolio, including renegotiations on service charges, business rates and rent reviews. The central contingency includes a sum of £500k of additional income & savings expected to be generated from the incentivised work that C & W would undertake. Members are requested to note an adjustment has been made to the central contingency to reflect the £376k savings achieved to date in 2018/19, mainly from one – off refunds on past years business rates across a range of Council properties.

- 3.2.3 As part of the introduction of Localised Pay, Members agreed a merited reward for exceptional performers and a provision of £200k was included in the Central Contingency. A request is made to drawdown the £200k to fund the expenditure for the rewards in 2018/19.
- 3.2.4 Works to the welfare areas with the Palace complex including East and West Wings have been identified and prioritised with Amey due to commence a Programme shortly. The work will predominantly focus on refreshing WC and Kitchenette facilities. A request is made to drawdown the £200k to fund the expenditure for the Civic Centre improvement works.
- 3.2.5 As reported to Executive on 16th January 2019, as part of the ‘Draft 2019/20 Budget and Update on Council’s Financial Strategy 2020/21 to 2022/23’, (see section 8.16.1 of that report) Chief Officers will undertake a significant transformation review across all services. The review will focus on higher spend services first, to be completed during 2019/20 for implementation by 2020/21. Members are requested to set aside an earmarked reserve of £500k, funded from underspends, which will be utilised to access any additional resource requirement and use of specialised advice (e.g. legal) in order to complete this work. The Interim Chief Executive will approve the release of these monies in consultation with the Portfolio Holder for Resources, Commissioning and Contract Management.
- 3.2.6 Additional in year grant funding of £227k has been returned to the central contingency, from the Revenue and Benefits division. This includes grant funding from the GLA and DWP.
- 3.2.7 The Executive approved the drawdown of £500k of Adult Social Care Grant (iBCF) on the 28th November 2018 to offset increased costs that were identified in Adult Social Care. Since then following the announcement of other grants and some management action this grant is no longer required to be drawn down. Therefore it is recommended that the £500k be returned to contingency. The Central Contingency now totals £873k.
- 3.2.8 It is recommended that £187k of this sum be set aside to cover the additional costs directly arising from the introduction of pre-paid cards to support the Council’s commitment to promote direct payments as the uptake of direct payments is low in relation to comparative Councils. It is proposed that pre-paid cards will become the default method of receiving direct payments and that existing recipients will be asked to transfer to a pre-paid card. All new direct payments clients would be expected to operate a prepaid card account unless they specifically asked not to. Its use will be closely monitored to determine the level of efficiencies delivered and its benefits.

The costs cover the implementation and use of the system over the next four years (with an estimated contract cost ranging from £26k in year one to £59k in year four as more clients come on board) with an estimated 1,180 clients by year four using prepaid cards as a method of receiving direct payments and other forms of funding from the Council.

Prepaid cards will benefit service delivery in the following areas:

- Direct payments for adults and children.
- 16+ Aftercare
- People with no recourse to public funds supported by Children’s services
- People with no recourse to public funds supported by Adults services

- 3.2.9 Alongside the 2018/19 Local Government Finance Settlement, the Ministry of Housing, Communities and Local Government announced the Adult Social Care Support Grant for local authorities. Bromley's allocation is £744k, which helps partly mitigate the impact of the fall out of the 2017/18 Adult Social Care Grant (£1,196k) that had already been included in the 2018/19 budget.
- 3.2.10 On 2nd 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 £1,190k for Bromley, aims to help local authorities reduce pressures on the NHS by getting patients home quicker and freeing up hospital beds. It is recommended that this funding be allocated. As a result of this additional funding, the £500k of IBCF funding that was previously drawn down to offset in year costs within Adult Social Care will be returned to Central Contingency and carried forward to 2019/20.
- 3.2.11 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 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 monies for growth, investment and economic development to generate additional income, promote 'invest to save' and provide a more sustainable financial position. The use of these monies in the past have contributed towards the Council achieving income of £15.4m per annum from 2019/20 from property and treasury management income which has protected key services and reduced the 'budget gap' in future years.
- 3.2.12 The most significant growth/cost pressure facing the Council relates to the cost of homelessness and there will be investment choices identified through the Council's Transformation programme to reduce homelessness costs. With a combination of additional income, underspends and unspent monies within the 2018/19 Central Contingency Sum it is proposed that a sum of £7.5m is set aside as an earmarked reserve to contribute towards the significant future housing investment required. The utilisation of this funding would be reported to a future meeting of the Executive as part of the Transformation proposals.
- 3.2.13 There are reports elsewhere on the agenda requesting the drawdown of the following items from contingency:
- (i) Increase in costs of homelessness - £1,739k
 - (ii) Homelessness Reduction Act - £750k

The figures contained in this report assume that these requests will be agreed.

- 3.2.14 Based on the latest financial position, there is a forecast net variation of £826k 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 increase by £1,068k to £21,068k at 31st March 2019 as detailed below:

	2018/19 Projected Outturn £'000
General Fund Balance as at 1st April 2018	Cr 20,000
Net Variations on Services & Central Items (para 3.1)	Cr 2,527
	Cr 22,527
Adjustment to Balances:	
Carry Forwards (funded from underspends in 2017/18)	1,459
General Fund Balance as at 31st March 2019	Cr 21,068

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	
Adult Care & Health Portfolio			
Assessment & Care Management - Care Placements	21,930	614	<i>net of management action</i>
Learning Disabilities - Care Placements, Transport & Care Management	33,706	1,322	<i>net of management action</i>
Mental Health - Care Placements	6,169	161	
Better Care Funding	0 Cr	33	
		2,064	
Education, Children & Families Portfolio			
Adult Education	Cr 525	130	
Children's Social Care	34,414	3,801	<i>net of management action</i>
		3,931	
Environment & Community Portfolio			
Parking			
		0	
Renewal, Recreation & Housing Portfolio			
Housing Needs - Temporary Accommodation	6,241	521	<i>net of contingency drawdown</i>
Supporting People	1,013 Cr	94	
		427	
Resources, Commissioning & Contracts Management Portfolio			
Legal Services - Legal/Counsel Fees & Court Costs	389	70	
		70	
TOTAL		6,492	

3.4.2 A significant part of the above has been reflected in the 2019/20 as part of the budget setting process. Other additional costs identified will need to be mitigated by the services during the course of the 2019/20 financial year. The main increases in the full year effect compared to the last monitoring report are in the area of childrens social care.

3.4.3 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.

3.4.4 Further details are included in Appendix 5.

Investment Income

3.5 Income from Investment Properties

3.5.1 A deficit of £279k is projected for investment income which takes into consideration the following issues:

- (i) There is a deficit of income from Investment Fund properties of £286k, against an income budget of £5.761m. This shortfall partly relates to the vacated Argos shop on Market Square (£154k), the Russel and Bromley site, which has now been let at a reduced rent (£86k) and 95 High Street (£90k). Other net changes in leases have resulted in an overachievement of income of £44k.
- (ii) The Glades Shopping Centre rental income is currently projected to produce a surplus of £53k above budget for 2018/19, based on the latest Quarter 3 statement. 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) The Walnuts management company (Montagu Evans) work with LBB to close their accounting periods in arrears. Recent work on closing the 2016 accounts has led to a revised forecast of a £60k shortfall of rental income for 2018/19, due to offsetting the cost of large scale works to the Walnuts car park, from the income rent share.
- (iv) There is also a net overachievement of income currently projected on other Investment properties of Cr £14k. The forecast takes into account the apparent trend towards higher income from Biggin Hill Airport (Cr £74k), offset by a deficit of rent from various vacant properties (£60k).

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 £500k 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 1.2%.

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 26th February 2018 and the Treasury Management - Annual Investment Strategy 2019/20 And Quarter 3 Performance 2018/19 was reported to Executive, Resources and Contracts Policy Development and Scrutiny Committee on 7th February 2019.

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 underspend of £281k on DSG funded services which will be added to the £1,180k carried forward from 2017/18. The carry forward figure has been adjusted by the Early Year adjustment which has reduced the amount we receive in 2018/19 by £166k. This gives us an estimated DSG balance of £1,295k at the end of the financial year.
- 3.7.3 This figure includes the additional £788k extra funding in 2018/19 that Government announced on the 17th December 2018 for the High Needs Block. It has been agreed that £212k of this funding will be utilised in 2019/20 to cover High Needs Block costs. This will in effect come from the £1,295k that is estimated to be carried forward into 2019/20. Without the £788k funding LBB would only be carrying forward £507k into 2019/20.

3.8 Prior Year Adjustments

- 3.8.1 Financial provisions were made in prior years accounts for Learning Disability and Mental Health services, and an element of these are no longer required and have therefore been released in 2018/19 resulting in a credit of £300k.
- 3.8.2 On the 12th September 2018 a report came to the Executive in regard to a new Social Care Management System. The decision was made to progress with a replacement of the current system and therefore cease any further developments of the current social care IT system. Costs have been incurred in the development of the old system and charged to Capital prior to the decision by the Executive.
- 3.8.3 In terms of capital costs being incurred and in line with standard accounting practice, costs that do not result in a capital scheme being progressed are required to be charged to revenue budgets. A total of £746k has been charged for the Children Social Care IT system which has ceased and therefore capital costs arising from this project need to be written back to Revenue. £500k was funded by a RCCO (revenue contribution to capital outlay) which will offset this charge. Therefore a total net charge of £246k will be written back to revenue. This results in a corresponding reduction in eligible capital programme expenditure.

3.9 Set aside of funding from the Growth Fund

- 3.9.1 The RRH Portfolio Holder, following the RRH PDS meeting on 6 March, recommended that the Executive approve the allocation of up to £75k from the Growth Fund to cover the costs of the proposed West Wickham BID project. Although there are no direct financial savings to the Council, should the BID be established following a successful secret ballot, it would provide a mechanism for West Wickham town centre to receive additional funds of around £620k from the levy, over a five year period.

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 Q3 2018/19 & Capital Strategy 2019 to 2023 reported to the 13th February 2019 Executive. The uncommitted balances reported previously were £19.3m on the Investment Fund and £10.2m on the Growth Fund before allowing for the request in para 3.9.1 above.

3.11 Health and Social Care Initiatives Reserve

- 3.11.1 As in previous years the BCCG have identified funding to pump prime and deliver the investment required by health working with the Council to deliver integrated services across the whole health and care system. The primary purpose for such contributions relates to transformation funding which provides a benefit to health care with a positive impact on social care. The BCCG will be making a further £900k contribution which will be set aside as an earmarked reserve. The social care impact will be the determinant for the release of such funds. Any proposal for the use of the monies require the approval of Executive or even full Council, depending on the amount requested.
- 3.11.2 Executive are requested to agree that a sum of £900k be set aside within the earmarked reserve. This fund will ensure the support of key initiatives relating to health and social care.

3.12 Financial Context

- 3.12.1 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 2018.
- 3.12.2 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.
- 3.12.3 The 2019/20 Council Tax report identified a budget gap of £31.7m per annum by 2022/23. 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.

Non-Applicable Sections:	Personnel, Legal, Procurement
Background Documents: (Access via Contact Officer)	Provisional Final Accounts 2017/18 – Executive 21 st May 2018; 2018/19 Council Tax – Executive 7th February 2018; Draft 2018/19 Budget and Update on Council’s Financial Strategy 2019/20 to 2021/22 – Executive 10 th January 2018; Capital Programme Monitoring Report – elsewhere on agenda; Treasury Management Annual Investment Strategy 2018/19 – Council 26 th February 2018; Treasury Management Quarter 2 Performance 2018/19 and Mid-Year Review – Executive, Resources and Contracts PDS Committee 22 nd November 2018; Financial Management Budget Monitoring files across all portfolios.