

**Decision Maker:** Environment PDS Committee

**Date:** 18 January 2012

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

**Title:** DRAFT 2012/13 BUDGET

**Contact Officer:** Claire Martin, Head of Finance  
Tel: 020 8313 4286 E-mail: claire.martin@bromley.gov.uk

**Chief Officer:** Nigel Davies, Director of Environmental Services

**Ward:** Boroughwide

---

1. Reason for report

- 1.1 The prime purpose of this report is to consider the Portfolio Holder's Draft 2012/13 Budget which incorporates future cost pressures and initial draft budget saving options which were reported to Executive on 11<sup>th</sup> January 2012. Members are requested to consider the initial draft budget saving proposals and also identify any further action that might be taken to reduce cost pressures facing the Council over the next four years.
- 1.2 Executive are requesting that each PDS Committee consider the initial draft budget savings and cost pressures for their Portfolio and the views of each PDS Committee be reported back to the next meeting of the Executive, prior to the Executive making recommendations to Council on 2012/13 Council Tax levels.
- 1.3 There are still outstanding issues and areas of uncertainty remaining. Any further updates will be included in the 2012/13 Council Tax report to the next meeting of the Executive.
- 

2. **RECOMMENDATION**

2.1 The PDS Committee are requested to:

- (a) Consider the initial draft 2012/13 Budget as a basis for setting the 2012/13 Budget;
- (b) Consider the initial draft saving options proposed by the Executive;
- (c) Consider the update on the financial forecast for 2013/14 to 2015/16;
- (d) Provide comments for the February meeting of the Executive on the Draft 2012/13 Budget.

### Corporate Policy

1. Policy Status: Existing policy. Sound financial management
  2. BBB Priority: Excellent Council.
- 

### Financial

1. Cost of proposal: N/A
  2. Ongoing costs: Recurring cost.
  3. Budget head/performance centre: Environment Portfolio Budgets
  4. Total current budget for this head: £45.3m
  5. Source of funding: Draft revenue budget 2012/13
- 

### Staff

1. Number of staff (current and additional): full details will be available with the Council's 2012/13 Financial Control Budget published in March 2012
  2. If from existing staff resources, number of staff hours: N/A
- 

### 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 not applicable.
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2012/13 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.
- 

### Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments:

### **3. COMMENTARY**

#### **Approach to the Budget**

- 3.1 Forward financial planning and financial management is a key strength at Bromley and this has been recognised previously by our external auditors. The Executive report on the 11<sup>th</sup> January 2012 set out the financial forecast for the next 4 years but with some caution around projections for the 3<sup>rd</sup> and 4<sup>th</sup> year of the Comprehensive Spending Review period (2013/14 and 2014/15) as well as the year following the 4-year Comprehensive Spending Review period (2015/16). There are significant changes which can impact on the Council's finances from 2013/14 arising from the final outcome of the Local Government Resources review which includes the localisation of business rates and council tax benefit.
- 3.2 The Budget Strategy has to be set within the context of a reducing resource base – the need to reduce the size and shape of the organisation to secure priority outcomes within the resources available. There is also a need to build in flexibility in identifying options to bridge the budget gap as the gap could increase further. The overall updated strategy has to be set in the context of the national state of public finances, unprecedented in recent times, and the high expectation from the Government that services should be reformed and redesigned. There is also a need to consider “front loading” savings to ensure difficult decisions are taken early in the budgetary cycle, provide some investment in specific priorities and to support invest to save opportunities which provide a more sustainable financial position in the longer term, ensuring stewardship of the Council's resources . Any budget decisions will need to consider the finalisation of the 2012/13 Budget but also consider the longer time frame where it is now clear that a longer period of austerity beyond 2015/16 is inevitable. Members will need to consider decisions now that can have a significant impact on the future year's financial position which ultimately will help to protect key services. Further details of the Council's approach to budgeting were included in the “Update on Council's Financial Strategy 2012/13 to 2015/16” considered by Executive on 7<sup>th</sup> September 2011.

#### **Changes that could impact on longer term financial projections**

- 3.3 In considering the next four years there remain many variables which will impact on any final outcome, these include:-
- The scale of schools transferring to Academies will result in further “top slicing” in formula grant funding to the Council. An estimated additional £3 million per annum from 2013/14 has been assumed in the forecast, at this stage;
  - Income from interest on balances included in the 2011/12 Council Tax report assumed that interest rates will increase to 4.25% by 2014/15. The latest forecast assumes a revised level of 2.0% by 2014/15. Recent indications are that interest rates will remain low in the medium term which was confirmed in the recent downward projections on interest rates included in the Bank of England Inflation Report (November 2011). The credit rating agencies and the market in general continue to be extremely nervous about the financial climate resulting in recent downgrades to UK banks and building societies, primarily Barclays, Santander and Nationwide which will result in reductions to the total value and duration of such investments. This will undoubtedly lead to greater reliance on money market funds, which pay considerably lower rates in exchange for instant access to cash. The recent changes will impact on the Council's ability to earn interest on investments in 2012/13 and 2013/14 and potentially later years.
  - There will be a review of local government finance and the initial proposals include the abolition of Formula Grant and allow local authorities to retain business rates. Although Bromley would be a net gainer, in reality there would be a business rate equalisation

scheme to support low revenue raising authorities which may offset any gains. Other Government grants will still reduce in future years to reflect planned reductions in public spending. No changes to the financial forecast have been made at this stage. There are planned 10% reductions in Council Tax Benefit Subsidy from 2013/14 which the projections assume will be cost neutral (i.e. offset by a corresponding reduction in payments). These proposals result in a significant risk transfer from central government to local government. Government currently manages the increasing costs of council tax benefit and the risks relating to variations in business rates. These risks will be managed by the Council from April 2013. Finally more detail of the options for “community budgets” will be produced from the local government finance review;

- The coalition Government will introduce many changes in its first term including, for example, changes to health (including transfer of funding for public health from 2013/14), welfare benefits, localism (including new powers of competence for Councils to act in the interest of their communities), which have been assumed as cost neutral in the projections at this stage;
- There will be many other variables as the forecast is based on predicting the next four years; the longer the timescale the greater the uncertainty. Many of the national issues outlined above, makes accurate forecasting post April 2013 virtually impossible. However, it is clear that a significant “budget gap” will continue.

## Latest Financial Forecast

- 3.4 A summary of the latest budget projections including further savings required to balance the budget for 2012/13 to 2013/14 are summarised below:

	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m
<b>Cost Pressures</b>				
Inflation	8.10	15.70	23.40	31.10
Interest on Balances	0.00	0.00	-0.50	-1.00
Grant loss	7.30	11.80	20.10	27.90
Real changes	1.50	3.30	5.70	9.60
Provision for risk	2.00	1.50	1.50	1.50
Loss of grant funding (LACSEG)	0.00	3.00	3.00	3.00
	<u>18.90</u>	<u>35.30</u>	<u>53.20</u>	<u>72.10</u>
<b>Income/Savings</b>				
2.5% increase in Council Tax (assumes freeze at this stage for 2012/13)	0	-3.3	-6.7	-10.1
Savings approved by Executive February 2011	-10.6	-9.7	-9.7	-9.8
Further savings identified	-13.8	-23.9	-23.9	-23.9
	<u>-24.4</u>	<u>-36.9</u>	<u>-40.3</u>	<u>-43.8</u>
<b>Other</b>				
Invest to Save (one-off)	3.00	0.00	0.00	0.00
Council Tax Freeze grant	-3.00	0.00	0.00	0.00
Contribution to Glades	0.90	0.00	0.00	0.00
Increase in Council Tax base	-0.50	-0.50	-0.50	-0.50
New Homes Bonus – transfer to earmarked reserve	2.00	2.30	2.50	2.70
Increase in New Homes Bonus	-1.30	-1.50	-1.80	-2.00
Infrastructure Fund (one off funding)	4.40	1.30		
	<u>5.50</u>	<u>1.60</u>	<u>0.20</u>	<u>0.20</u>
<b>Remaining "Budget Gap"</b>	<u><b>0.00</b></u>	<u><b>0.00</b></u>	<u><b>13.10</b></u>	<u><b>28.50</b></u>

The above table shows, for illustrative purposes the impact of a council tax freeze in 2012/13. If Members agree a council tax increase of 2.5% in 2012/13 the medium term "budget gap" reduces by £3.3m. Each 1% council tax increase generates ongoing annual income of £1.3m.

## Growth Pressures

- 3.5 A breakdown of growth pressures over the next four years is included in Appendix 3 of the Executive report of 11 January 2012 and included in the table above under "Real Changes". This growth in service pressures across the Council is forecast to be £1.5m in 2012/13 increasing to £9.6m by 2015/16. The growth for the ES Portfolio is shown in the table below:-

	2012/13 £'000	2013/14 £'000	2014/15 £'000
Absorption of inflation increases for PCNs	183	313	449
Landfill Tax increases	(1,026)	(641)	(256)
Increase in waste contract prices & disposal targets	877	853	830
Increase in refuse/recycling collection costs to reflect additional units	38	76	114
<b>Total real changes</b>	<b>72</b>	<b>601</b>	<b>1,137</b>

#### 4. CHIEF OFFICER COMMENTS

- 4.1 Expenditure pressures in relation to services for the Environment PDS such as waste, parking, highways and winter maintenance are detailed in Appendix 1.
- 4.2 A summary of the savings options relating to the Environment Portfolio is shown in the table below:

Summary of Savings Options	2012/13 £'000	2013/14 £'000
Appendix 2A - Savings currently being implemented by Chief Officers	216	266
Appendix 2B - Savings related to on-going impact of 2011/12 budget options	0	304
Appendix 2C - Further savings identified	3,906	2,465
<b>Portfolio Total</b>	<b>4,122</b>	<b>3,035</b>

- 4.3 Further analysis of these savings options is included within Appendix 2 and more detail will be provided verbally at the meeting.

#### Budget Savings

- 4.4 A significant proportion of the Environment Portfolio budget is allocated to universal, front-line and high priority contracts, including waste collection and disposal, street cleaning, highways, street lighting and grounds maintenance. Savings in 2012/13 have been achieved through renegotiation and effective procurement of these contracts and this will continue in future, although inevitably there will be some reductions in services as specified in the appendices.
- 4.5 Reviews have been undertaken to reduce staffing levels, including management, as far as possible, to maintain a lean service but with the capacity to deliver. Consideration has also been given to the opportunity of maximising income, particularly in the areas of highest income, parking, streetworks and trade waste.
- 4.6 Inevitably there are some service risks, particularly from unpredictable demand and these are highlighted in appendix one.

#### 5. POLICY IMPLICATIONS

- 5.1 The Council's key priorities are included within the Council's "Building a Better Bromley" statement and include:
- Safer Communities
  - A quality environment
  - Vibrant, thriving town centres

- Supporting independence, especially of older people
- Ensuring all children and young people have opportunities to achieve their potential
- An Excellent Council

5.2 “Building a Better Bromley” refers to aims/outcomes that includes remaining amongst the lowest Council tax levels in Outer London” and achieving a “sustainable council tax and sound financial strategy”.

## 6. FINANCIAL IMPLICATIONS

6.1 The financial implications are contained within the overall report

## 7. LEGAL IMPLICATIONS

7.1 The delivery of some budget options will be dependant on consultation and formal decisions outside of the budget setting process. The Council has to set a lawful balanced budget before 11<sup>th</sup> March which will include contingencies to cover such items.

## 8. PERSONNEL IMPLICATIONS

8.1 The Corporate Trade Union and Departmental Representatives’ Forum receives regular updates on the Council’s finances and the associated policy implications and challenges. Staff and their trade union representatives will be consulted individually and collectively on any adverse staffing implications arising from the budget options. Managers have also been asked to encourage and facilitate staff involvement in budget and service planning.

<b>Non-Applicable Sections:</b>	
Background Documents: (Access via Contact Officer)	Documents held within ES finance section

RISK AREAS WITHIN ENVIRONMENT PORTFOLIO FOR 201/13 ONWARDS**Waste Services****Landfill Tax**

Landfill Tax currently stands at £56 per tonne, and will increase by a further £8 per tonne in 2012/13. The government have confirmed that this will continue to rise at the same rate in the future until it reaches £80 per tonne.

The government have remained silent on the option of further increasing landfill Tax beyond this level. However, the decision to remove the landfill Allowance Trading Scheme from 2012/13 onwards, with the justification that Landfill Tax is a more effective methodology for landfill diversion, suggests that this option may be pursued.

Similarly, the government has not published any plans for instituting an Incineration Tax, but remain unwilling to rule it out. Their admission that declining Landfill Tax returns (as overall waste tonnages continue to fall (municipal landfill tonnage fell by 668,000 tonnes between 09/10 and 10/11, reducing government landfill tax income by £32 million)) are an issue for the treasury suggest that alternative income may yet be sought.

**Increasing property numbers**

Growth in the number of properties, which requires extra collection activities and generates additional waste, incurs additional expenditure. Each new property attracts a charge of £60 per year for collection (refuse, recycling and food waste), and an average of £73 per year to dispose of the waste. Each new property thus represents a potential additional cost of £133 per year. On average, the number of properties in the borough increases by 500 each year (with October 2011 showing an increase of 494 compared with October 2010).

**Municipal Waste Tonnages**

The tonnage of municipal waste collected in Bromley continues to fall:

2007/08	163,981
2008/09	157,225
2009/10	149,720
2010/11	144,890
2011/12	142,066 (estimated)

This is partly due to the impact of the recession, to a degree which cannot be quantified. Whilst the impact of the incremental introduction of CfA and local and national waste minimisation campaigns are also a contributory factor, there is a substantial risk that waste tonnages will rise once the economy begins to revive.

The current average cost of waste disposal is £80 per tonne. Each 1% increase in waste tonnage would thus increase disposal costs by £114k per annum.

**Recycling Income**

The fall in overall waste tonnages also impacts on the tonnages of recycling materials available for collection.

Paper tonnages are sold to Aylesford newsprint at £40 per tonne, rising to £67 per tonne in January 2012.

Paper tonnage for 2010/11 was 16,895 tonnes. Each 1% fall in paper tonnage will thus reduce income by £11k.

The introduction of more regular paper collection as an element of the CFA scheme has stabilised paper tonnages at present, but further declines in municipal waste tonnages may have negative impacts on this income stream.

**Changes to contractual prices and targets**

The Waste Management Contract was originally let in 2001. A pricing schedule for landfill, recycling, composting and incineration was agreed for each year of the Contract through to 2016 (with a possible extension). This was required to provide budgetary certainty, leaving the tonnage collected as the only cost variable.

Veolia took a long-term view of their disposal costs, allowing for diminishing landfill capacity and the resultant pressure on incineration capacity. The contract payment mechanism thus incorporates step changes in the cost and proportion of landfill and incineration. The cost of incineration undergoes a major step change in 2012/13, due to both the increase in tonnage allocated to this disposal route (24% to 42%) and the cost per tonne, which rises steeply. However, the balancing reduction in tonnages to landfill (resulting in less Landfill Tax) partially balance this impact.

**Mitigation Initiatives****Revised Garden Waste Collection Service Trial**

The introduction of a trial for an alternative garden waste collection scheme will commence in March, providing residents with the option of replacing the current GGW Sticker Service with a wheelie-bin based system in specified geographical areas. Residents would pay an annual charge covering both the fortnightly collection service and a specified container. This scheme has the potential to generate annual surplus income of £180k. However, as with any trial scheme, there is a risk that should customer participation fall short of estimates, this level of income won't be achieved.

**Textile Collections**

It is planned to negotiate changes to the textile banks in Bromley, with the income from the sale of the materials being passed directly to the council. In addition, a kerbside collection service for textiles will be introduced.

Whilst income projections for these revised services have been conservatively projected, again tonnages may be adversely affected by the impact of the economy on residents purchasing habits. Each 1% fall in tonnages would reduce income by £1.1k.

**Alternative disposal options**

The pricing schedule in the Waste Management Contract specifies a set minimum tonnage each year to be sent for incineration. Patently, in terms of Landfill Tax it would be beneficial to send more of Bromley's waste to incineration. However, with all disposal authorities facing similar pressures, current incineration capacity is at a premium. Officers are currently exploring additional incineration capacity, both through Veolia and independently. We are also exploring the opportunity to send some of our waste to MBT or Autoclaving as an alternative disposal point for our landfill based waste. Discussions regarding this have commenced with Veolia (Southwark) and Viridor (Croydon), as well as with London Borough of Lewisham and Kent County Council.

**Street Environment Contracts**

The Street Environment Contracts have recently been let following a tender process. The lowest tender total (Kier Services) for Lot 1 Street Cleaning of £3.160m compares with a budget of £4.270m for 2012/2013. This is a significant reduction (26%) in the current budgetary provision and has been achieved through variations in operational methodology and reductions in the frequency of carriageway and footway cleaning in a number of roads within the borough.

Officers have revised the frequency of cleaning based on their operational knowledge and experience of local considerations across the borough. However, it should be recognised that given such a significant budget reduction and changes to frequency of cleaning in some roads, it will be necessary to review the schedule of cleaning in light of any concerns about standards of cleanliness resulting from changes in frequency. This may result in a need to change the operational methodology and/or the frequency of scheduled cleaning included within the contract.

To manage this risk it is suggested that a budget of £200k be held in the Central Contingency to mitigate against any need to increase frequency of cleaning or revise operational methodology. If not required this sum could be taken as a saving in future years. This will give an element of flexibility to incorporate non-scheduled programmes of works, whilst retaining a degree of budgetary provision to manage risk

**Street works**

LB Bromley has a responsibility under the New Roads & Streetworks Act to monitor the works of Statutory Undertakers (SU's) that affect the highway infrastructure. When defects are identified within road or footway reinstatements, a defect notice is issued and a charge made on the SU concerned to cover additional inspections.

Income levels have varied during the last five years in line with the performance of Utility companies. The quality of works undertaken by Thames Water Utilities (TWU) has deteriorated in recent years, which led to an over performance in income between 2007/8 and 2010/11, however TWU have been working hard this year to improve their performance, and have introduced new contracts to minimise defective works in the future.

Income dropped significantly by £440k from 2010/11 compared to 2009/10 and officers anticipated a further drop of income of £350k from defect notices during 2011/12. The actual drop in 2011/12 compared to 2010/11, appears to be just under £100k, however officers feel that Thames Water will continue to improve their performance.

**Winter service**

The last 2 years have seen a significant increase in expenditure on winter service, following several years with little or no snow. Budgets have historically been based on patterns of spend for precautionary salting, primarily for frost or ice, with relatively little actual snow clearance. As a result of the protracted snow, ice and sub-zero temperatures during the winter of 2010/11 winter maintenance budgets were overspent by £706k, with extra costs incurred for tree maintenance of £35k as well as for waste collection costs of £77k.

It is unclear at this stage whether this is a permanent shift in weather patterns or a one-off, although government have commissioned some research to try and clarify this. In the mean time there is a significant risk of incurring additional expenditure on winter service.

**Highways & Street Lighting Contracts**

We currently have three contracts for highways and street lighting maintenance, with an annual spend in 2010/11 of £7.3m. These contracts have price fluctuation clauses based on actual cost indexing whereas budget increases are based on RPIX. Although the budgets are cash limited, the variation between the two will lead to a reduction in spending power in real terms.

**Parking**

A review of Parking was completed by a working group of the Environment PDS Committee in June 2009. Benchmarking of other boroughs identified wide variations in their policy approach to parking. In addition concerns were raised about projected shortfalls in income generation in Bromley, principally caused by the recession as detailed above.

The Parking review concluded that there was potential for efficiency savings from reducing the complexity of the borough's current tariff structure and zones. It should be noted that the service operates in a restricted legal environment which "does not include the maximisation of revenue from parking charges as one of the relevant considerations to be taken into account in securing the...movement of traffic" (Traffic Management and Parking Guidance for London)."

Charges/tariffs for on- and off-street parking places are set by LB Bromley and prior to 2008 had been increased annually on a four year cycle. A fundamental review of the Council's complex tariff structure has taken place at officer level and Members have agreed in principle to consider reform. However Members are aware of the potential impact of an increase in charges in the current economic climate, whilst recognising the pressure on the service to meet its income targets following several years of inflation and VAT increases.

For a number of years there has been a general decline in 'paid for' car parking in the borough. The introduction of new on-street parking schemes and restricted zones has prevented the reduction in use from being even greater. Although new schemes will continue to be implemented to meet localised traffic and parking needs, there is no reason to suspect that the downward trend will be reversed, particularly in regard to off-street parking. Again this puts greater pressure on the service to meet its financial obligations.

During the period 2007-2010 there was a significant decline in the usage and income from our multi-storey car parks within Bromley town centre, although since then usage has stabilised. Further, there was a reduction in the average ticket value which demonstrated that the average length of stay in the multi storey car parks had shortened, resulting in income being further reduced. Initial estimates show a £30k net shortfall to budgeted income for 2011/12. In the current economic climate it is difficult to make reliable estimates of parking demand in the short to medium term, or forecast the longer term effects of the recession on parking behaviour.

### **Pressures from Public Demand**

Apart from the identifiable financial pressures arising from such items as budget reductions, contract costs and price increases there are other pressures due to growing public expectations, social change and legislation. Increased public expectations of local services may be difficult to respond to during a period of tight restraints on resources.

Public surveys have shown that four issues are consistently recognised as making Bromley a good place to live. These are crime, health services, clean streets and public transport. The Environmental Services department leads for the Council on clean streets and on crime issues, particularly enviro-crime and anti-social behaviour; and the department has an input to TfL and others on public transport. There is continued public demand for high service standards in all these areas.

In terms of what needs most improvement in the local area, activities for teenagers, traffic congestion, road and pavement repairs, the level of crime and clean streets are regularly mentioned by residents. All of these service areas are either the lead responsibility of the Environmental Services department (clean streets, road & pavement repairs) or ones to which the department makes a significant contribution.