REPORT

OF THE

LOCAL GOVERNMENT FINANCE WORKING GROUP

March 2013

Acknowledgements

I would like to express my thanks to my colleagues and the officers involved in progressing this Review for their dedication, hard work and valuable contributions:

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Consultants:	Nick Ireland of GL Hearn

The following Reports and Presentations were reviewed:

Opportunities for Public Health in Light of The Shadow Health & Wellbeing Board	by Harriet Martyn
Stimulating the Economy Study	by GL Hearn
Moving to a Commissioning Authority	by Peopletoo
LoCATE, Economic Growth Plan	by Nathaniel Lichfield & Partners
LoCATE Property Development Strategy	by Jones Lang LaSalle
Various Government publications on Government Websites	

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EXECUTIVE SUMMARY

The changes in the Local Government Finance Act 2012 introduced by the Government are having a profound impact on Bromley Council's finances, forcing the Council to adapt its business model. It is imperative that the Council generates more income locally, drives for business growth whilst it continues to cut back its costs to the bone and streamlines the delivery of services.

Cutting costs and increasing the efficiency of service delivery over the past two years have resulted in massive cost savings but there are not many further efficiency savings, which can be made in this way. Painful changes will now need to be made to the quantum and delivery of Council services and considerable changes to the Council's organization have become inevitable.

The Council will need to emerge as a different organization in the medium term, moving from an authority whose primary purpose is the delivery of services to the local community to a commissioning authority, which maintains democratic accountability and responsibility.

The Council will need to focus on upgrading established businesses and fostering the creation of new businesses at Biggin Hill, the Cray Valley corridor, Bromley Town, and Penge, and generating other income streams.

In order to achieve these objectives it will require innovative thinking and entrepreneurship, considering the setting-up of Local Asset Backed Vehicles (LABVs), optimizing the use of in-house skills complemented by external expertise, the retention of skilled staff, the involvement of experienced Members, coupled with a continued drive to maximize the use of assets.

This Report is very much Work-In-Progress and not intending to cover all options to address the Council's funding gap

The Council is currently identifying measures to achieve future savings, containing growth, baseline reviews, achieving contract savings, etc. and this work must continue with some urgency to ensure that the required changes can be planned consistently.

This Report's recommendations focus on particular, complementary initiatives, which the Council should take without delay. The Council has already begun to implement some aspects of the recommendations this Working Group is making but much work remains to be done.

1. INTRODUCTION

The prevalent, depressed economic environment forces the Council to plan for a very different future, i.e. several years of strong financial restraint. The ongoing period of austerity will exacerbate the downside risks and significantly exceed the opportunities for improvement. This means that the Council's budget gap in future years could widen substantially.

The Local Government Finance Working Group was set up in July 2012 to examine in depth the Council's financial situation and outlook following the introduction the Local Government Finance Act 2012 and to highlight options and measures it could take to mitigate downside risks.

The **objectives** were set as

1) to consider the impact for Bromley of the proposals arising from the Government's Local Government Resource Review, in particular
    - Localization of Business Rates
    - Localization of Council Tax Benefit

2) to bring forward proposals and recommendations for implementation in Bromley in response to the government proposals

3) to consider the wider impact of changes in local government finance and options to address the ongoing budget pressures

2. PUBLIC FINANCES

2.1. Economic Background

The Office for Budget Responsibility (OBR) provided a longer-term perspective in its Fiscal Sustainability Report. It suggests that keeping the Government's finances in a sustainable position in the longer term will require further uncomfortable decisions to be implemented in the medium term, on top of delivering the tax changes already planned for the next few years.

In addition, demographic pressures, particularly from the ageing of the population, will place upward pressure on public spending. The Institute of Fiscal Studies previously concluded that "significant further fiscal retrenchment (tax changes) will be required over the medium term to offset the estimated detrimental impact of changing demographics, and other factors, on public finances".

One key factor determining changes to public finances in the longer term relates to the level of economic growth measured by Gross Domestic Product (GDP). GDP fell by 0.1% in 2008 and 4.9% in 2009. Subsequently, it increased by 1.4% in 2010. In 2011 GDP growth was 0.9% and latest estimates by the OBR indicate a fall of 0.1% in 2012, with an increase of 1.2% in 2013 rising to 2.3% per annum from 2015. Historically the future projections have been optimistic and the actual level of growth has been less than previously estimated.

The ongoing Euro-zone crisis, ongoing fiscal squeeze and continued pressure on consumers' incomes will keep GDP at minimal levels (or even negative levels). GDP matters as low or negative GDP reduces the taxation income received by the Government and also results in an increase in spending on welfare benefits with a resultant upward pressure on overall public sector debt.

The weak growth has increased Government borrowing. Public sector debt is expected to peak in 2015/16 at 79.9% of GDP – in March 2012 the Chancellor expected it to peak in 2014/15 at 76.3% of GDP. Citing tighter economic conditions, the Chancellor recently indicated that it would take not three but four years to scale back the deficit and that the planned spending cuts will extend till at least 2017/18. The Chancellor referred to borrowing being higher and growth slower than previously thought but the Government's approach is ensuring that "Britain is heading in the right direction"

The Bank of England's inflation report (November 2012) states that "the UK economy has barely grown over the past two years, as it has laboured against the consequences of a financial crisis and its impact on global demand, a sharp squeeze in domestic spending power and necessary fiscal consolidation … The future path of GDP will depend critically on developments in the global environment, with strains in the Euro area posing the greatest risk to sustained recovery". Some analysts have warned that Britain is close to a treble-dip recession (last treble-dip recession was seen in the twenties and early thirties). Further "dips" could have a negative impact on consumer and private sector confidence. The Bank of England Governor referred to "underlying growth is likely to remain sluggish in the near term".

There remains concern about the Euro zone. Any global recovery is also at risk from the banks' "wall of debt" (International Monetary Fund), particularly identified as part of the "Euro zone debt crisis". There are many other factors such as the previous risk of the catastrophic default on the US debt of $14.3 trillion which was averted last summer with the need to avert a further "fiscal cliff" shortly. Two major structural changes in the economy are likely to limit the future growth potential of the economy: less revenue from North Sea Oil and a less expansionary banking system.

2.2. Impact on Bromley Council's Budget

These factors contribute to an unprecedented period, which creates economic uncertainty and will ultimately have an impact on funding available from the UK Government towards public finances. It follows that government funding for local authorities will continue to be under pressure, with a downward trend until government finances begin to improve, which is not expected before 2017/18 at the earliest. This means that Bromley Council will have to seek alternative sources of funding to offset the reduction in government grants.

There is uncertainty about the rate of inflation. The Bank of England highlights this uncertainty by indicating that "the risks of inflation being above or below the 2% target are broadly balanced through much of the second half of the forecast period" (2012 to 2015)". The main measure of inflation for annual price increases for the Council's contracted out services is Retail Price Index (excluding mortgage interest rates), i.e. RPIX. This measure is normally between 1% and 1.4% above the CPI level and is currently 2.9%.

The Council's Budget Strategy has to be set within the context of a reducing resource base, with Government funding reductions continuing until beyond 2020, and the high expectation from the Government that services should be reformed and redesigned. This means the Council will need to

- reduce the size and shape of the organization to focus on priority service delivery within the resources available
- build in flexibility in identifying options to bridge the budget gap as the gap could increase further
- continue to "front load" savings to ensure difficult decisions are taken early in the budgetary cycle
- provide some investment in specific priorities
- support invest to save opportunities
- ensure stewardship of the Council's resources to 2020 and beyond

3. COUNCIL'S FINANCIAL OBLIGATIONS

3.1. Statutory / Non-statutory

There were 1,335 statutory duties on local authorities as at June 2011. Local authorities are required to deliver such duties whilst maintaining financial sustainability. In meeting these statutory duties demand for high cost services continue, particularly relating to social care. Where there is discretion local authorities have to provide services within the statutory framework.

Local authorities continue to be required by law to balance their budget. The introduction of the "general power of competence" as part of the Localism Act 2011 has provided greater discretion over various services.

There has been no fundamental review by central Government of the statutory duties undertaken by local authorities despite significant ongoing reductions in Government funding. In the longer term the duties will need to be realigned to reflect the level of funding available.

Future funding projections undertaken by London Councils and the Local Government Association (LGA) indicate that future funding will only be able to target the meeting of statutory duties with little room for funding of non-statutory services. As indicated by the LGA "this may, in turn, require a renegotiation of public expectations of services and central Government expectations so that councils can continue to deliver national policy objectives" whilst reflecting the new financial climate. Simply put, the "business as usual" service provision appears not to be possible for the end of the decade."

Any decision on reducing or ceasing services by the Council needs to consider the statutory duties and any legal challenge to reflect rising public expectation.

The recent Council's "baseline reviews" estimated that non-statutory duties were, net of income, in the region of £20m. However, withdrawal of such non-statutory functions can have a consequential impact leading to further costs being met elsewhere. For example, the Council could reduce the resources required for income collection but this could lead to a loss of income, which offsets any initial saving. Other examples include the impact of non-statutory preventative services, which could, on withdrawal, lead to more intervention and increasing costs. The "baseline review" work will need to continue to enable key decisions to be made on the role of the Council, with a vision to the future within this period of austerity – providing a long term as well as a short term planning horizon.

The Council has statutory duties relating to supporting young people with Special Educational Needs. At present most of the costs are funded by the schools budget but by 2015/16 there is not expected to be any funding available to meet ongoing growth pressures. Ultimately such further costs will impact on the Council's general fund.

As there is no imminent review of statutory duties by central Government the expectation as indicated by both London Councils and the LGA is that by 2020 the principal statutory responsibilities of local government for social care and waste will require a significant majority of all available resources and are unavoidable, providing far less flexibility and control over spending decisions. There could therefore be a significant detrimental impact on non-statutory services.

3.2. Health & Well-being Board (HWB)

The Government fundamentally reformed the health service system with the Health and Social Care Act 2012., which established Health and Wellbeing Boards (HWB) as a forum where key leaders from the health and care system work together to improve the health and well-being of their local population to improve priorities and encourage commissioners to work in a more joined-up way.

Health and Well-being Boards are a key part of broader plans to modernise the NHS. The boards will help to give communities a greater say in understanding and addressing their local health and social care needs.

The Boards will bring together clinical commissioning groups and councils to develop a shared understanding of the health and wellbeing needs of the community. They will undertake the Joint Strategic Needs Assessment (JSNA) and develop a joint strategy for how these needs can be best addressed. This will include recommendations for joint commissioning and integrating services across health and care.

The Health and Social Care Bill mandates a minimum membership on the HWB of:

- One local elected representative
- A representative of local Health watch organization
- A representative of each local clinical commissioning group (CCG)
- The local authority director for adult social services
- The local authority director for children's services
- The director of public health for the local authority

The Boards will be under a statutory duty to involve local people in the preparation of Joint Strategic Needs Assessments and the development of joint health and wellbeing strategies. Bromley Council's HWB will become a statutory committee from April 2013 and meet bi-monthly.

Health spend in Bromley is currently £11 million for public health, £100 million for social care and £400 million for primary and secondary care. Temporary funding to the Council included transfer of revenue and capital from the PCT of £3.176 million in 2011/12 and £3.042 million in 2012/13. The Council will be receiving ongoing funding of £4.2 million p.a. from 2013/14 onwards.

The Government published details of the final funding arrangements for public health on 10th January 2013. The ring-fenced grants for 2013-14 and 2014-15 provide local authorities with £2.66 billion and £2.79 billion to spend on public health services for their local populations. Bromley's grants will be £12.6 million in 2013-14 and £12.954 million in 2014-15.

The principal expenditures will comprise mental health, learning disabilities, adults & older people and children's services

Bromley Council's function will be as the Lead Agency, Lead Commissioner or Joint Commissioner, working closely with the Clinical Commissioning Group (CCG) on strategic planning, joint need assessment and the health & well-being strategy. There are opportunities for more commissioning arrangements for other services and functions to be carried out on behalf of the CCG, such as contracting, monitoring and placement management.

There is a close link between some key services mainly within social care and some services commissioned through the CCG. There is a need to avoid the risk of "cost shunting" and unintended consequences of reductions in services by one organization leading to cost pressures in another organization. The changes relating to the South London Health Trust (SLHT) should also be closely watched as this could place cost pressure on social care services. The Council's role as "community lead" and the role of the Health and Wellbeing Board are critical to ensure/influence the effective use of resources through the different agencies involved.

The transfer of the responsibility for producing the Joint Needs Assessment to the Local Authority frees the compilation of the priority listing to be influenced by local needs instead of being subject to national criteria. This will mean that funds and efforts may be targeted to meet the needs of our residents, and partner agencies will be monitored to underpin the delivery against those shared priorities.

Wider issues for pan regional delivery may also be achieved through shared service working, which has been initiated through the sharing of a Public Health Director with Bexley for the time being. Future financial efficiencies may be achieved through the direction of key aims in a more targeted way and via better use of the third sector.

3.3. The Schools Budget

The scale of schools transferring to Academies will result in further significant reductions in the Government's LACSEG funding with an estimated loss of £3.3m per annum in 2013/14 rising to an estimated £6m per annum in 2016/17. Savings of £1m have been assumed in 2013/14 partly to mitigate against these costs and further central education related savings will need to be identified.

Since 2003/04, the Council has received funding for Education services for the 'Schools Budget' through a ring-fenced grant (more recently through the Dedicated Schools Grant).

During 2012 the DfE has published a number of documents outlining their plans for School Funding Reform. This is the first step towards the introduction of a new national funding formula during the next spending review period which will ensure that similar pupils will attract similar levels of funding no matter where they go to school in the country. In preparation for this the DfE aims to simplify the local funding arrangements for 2013/14 and 2014/15 and to introduce a new approach to high needs funding that will help to improve transparency, quality and choice for young people and their families.

In July 2012 the DfE issued a consultation on replacing LACSEG in respect of funding Academies and Local Authorities for the functions that are devolved to Academies.

The proposal is to use a national average rate to remove funding from Authorities and passport to Academies. This method is flawed as it penalizes low cost Authorities with high Academy conversion rates, like Bromley.

Although Members and officers have been in discussion with Ministers and Officers at the DfE to look at alternative funding mechanisms, no changes have as yet been made to the formula.

4. COUNCIL'S INCOME

4.1. Grant Funding

The total income budget for the Council in 2013/14, excluding council tax, is analysed below**:**

	£'000
Government Grants	
- Schools Budget and 16+ education	138,745
- Housing Benefit, council tax support (admin grant) and social fund	129,647
- Revenue Support Grant	50,520
- Localisation of business rates (Bromley share)	33,610
- Public Health	12,601
- New Homes Bonus	3,858
- Other	2,540
Sub total	371,521
Customer and Client Receipts	42,245
PCT Funding for Health and Social Care (Section 256)	4,260
Other grants, reimbursements and contributions	3,734
Rents	8,531
Miscellaneous	5,666
Interest on receipts /balances	1,602
Total Income	**437,559**

It is important to recognize that Government grants to councils were cut by 28% while central Government's own budgets were only cut by 8% for the 2010 Spending Review period. The Council is expected to lose over £31m in government funding over the 2010 comprehensive spending review period (2011/12 to 2014/15). From 2015/16 funding is expected to fall by at least £7m per annum. This represents a cash reduction and in real terms, after allowing for inflation, the reduction is even greater. The Council is also at the "grant floor" and has "damping" protection of £12.6m in 2013/14. This could lead to further reductions in grant funding beyond the £7m per annum, particularly if the Government accelerates the phasing out of grant damping over a short period of time. The Government's resource totals for 2015/16 are expect to be announced in the summer which will give an early indication of the levels of grant reductions expected for local government in 2015/16.

The Government has set a fiscal assumption that public spending in 2017/18 will continue to fall at least at the same rate compared with the 2010 Spending Review period (2011/12 to 2014/15) – in reality funding reductions for local government will continue beyond 2017/18 and are expected to continue until at least 2020.

4.2. Council Income

The Council's financial forecast assumes that there will be a phased conversion of maintained schools to academies over the next three years (by end of 2015/16). If the level of conversion is higher in the earlier years then there will be a greater loss of Government funding in earlier years than currently projected. The Executive Director of Education and Care Services will need to continue to identify savings to partly mitigate against the loss of grant funding.

There was a review of fees and charges reflected in the Council's "baseline reviews" and any opportunities to increase income should continue to be explored.

For the future there are potential new income opportunities, which should be explored. These are:

(a) Community Infrastructure Levy;
(b) New Homes Bonus;
(c) Council's share (including risk share) from localisation of business rates

Further details are provided in section 6 of this report.

4.3. Council Tax

The Council is expected to raise £123m from Council Tax in 2013/14. Inflation of 2% increases the Council's costs by 4m. A 2% increase in council tax yields an extra £2.4m, a difference of £1.6m. Therefore council tax increases do not meet the cost of inflation alone due to the other main source of funding, Government grants, not increasing by inflation.

Currently if a Council seeks a council tax increase of over 2% a referendum will be required for all registered electors in the borough. The one off cost of a referendum is currently estimated to be £400k. A 2% increase is below current levels of inflation, reducing council budgets in real terms and the Government may introduce a lower trigger point for council tax increases in future.

Historically Bromley Council has chosen to have a council tax freeze for 2011/12 and 2012/13. Because of the short-term nature of the council tax freeze grant (2011/12 over spending review period and 2012/13 being a one off grant) the Council will have foregone ongoing income of over £5million per annum, in the longer term, by not choosing to increase council tax levels by 2.5% over both years).

5. IMPACT ON COUNCIL'S BUDGET

The Council, on a roll forward basis, has a "structural deficit" as the ongoing budget has increasing costs relating to inflation and service pressures, as well as the ongoing loss of Government grants. These changes are not being funded by a corresponding growth in income.

For the period 2011/12 to 2014/15, with a budget gap of £12m remaining there have been the following main changes:

Summary of Variations 2011/12 to 2014/15 (4 years)	£'Millions
Inflation	26
Net reduction in grant funding	31
Services pressures (including landfill tax)	10
Impact of welfare reforms and other key risks	6
Savings identified	57 Cr
Other changes	4 Cr
Budget gap remaining 2014/15	12

After allowing for the savings identified to date, there is a further budget gap of £12m by 2014/15. The budget gap beyond 2014/15 is expected to increase by an estimated further £13-14m per annum to over £39m per annum by 2016/17, but this sum is uncertain as this forecast falls outside the four year Comprehensive Spending Review period.

As indicated previously funding reductions for local government will continue beyond 2017/18 and are expected to continue until at least 2020. The financial forecast indicates ongoing cost pressures, inflation continuing to remain above targeted levels and ongoing reductions in government funding. On that basis further net reductions of £130m would be required in the next 10 years. This position is not sustainable and without a fundamental review by Government of future funding to achieve sustainable outcomes or a major review of statutory duties the Council faces a bleak future.

Without changes in funding or major reform there appears to be no realistic long-term solution at this stage. If Bromley had a fairer level of Government funding the Council would be in a better position. However, it cannot be assumed that the level of funding will improve, particularly as the Council has "damping" protection of £12.6m.

Despite having a level of funding which is too low for Bromley the Council has maintained the second lowest council tax in outer London. This has been achieved by having the lowest service cost per head of population compared with other London Boroughs.

Going forward it remains essential to seek to reduce the impact of inflation by greater cash limiting of budgets, renegotiating contracts to agree below inflation level increases where possible and to continue to review procurement options, which reduce the impact of inflation. Service pressures should be contained where possible within overall departmental “cash limits”, where opportunities to mitigate the impact of cost pressures are fully explored.

The key cost pressure areas that remain are

- social care
- potentially Special Educational Needs with no funding available from the schools budget beyond 2015/16
- impact of ongoing increases in landfill tax
- changes in Welfare reform with resultant impact of social care and homelessness (in the shorter to medium term).

The cost pressures arising from an ageing population remain contained at this stage.

London Councils estimate that there will be a funding gap of £16.5 billion a year by 2019/20 (an increase from £1.4 billion in 2013/14) or a 29% shortfall between revenue and spending pressures. The audit commission has warned that one third of counties and unitary authorities are deemed to be at medium risk during the Comprehensive Spending Review period ending 2014/15. Grant Thornton have identified a potential “tipping point” where for example some local authorities can no longer meet their statutory responsibilities to deliver a broad range of services within the funding available.

The retention of reserves remain therefore increasingly key to providing investment income, contributing towards the council’s capital programme, supporting invest to save initiatives and supporting the transitional period of significant reductions in Government funding in a period of a changing landscape for local authorities.

6. MEASURES TO CLOSE THE FUNDING GAP

6.1. New Homes Bonus

The Government has introduced the New Homes Bonus, a grant to local councils for increasing the number of homes and their use. The measure is also aimed at bringing empty homes into use.

The New Homes Bonus is paid each year for 6 years. It provides for match funding of council tax on each new home built and occupied for 6 years with a further £350 bonus for each affordable home. However from 2013/14 additional funding will be top-sliced from Formula Grant.

The Year 3 payments to Bromley (2013-2014) amount to £1.547 million, based on net additions of 772 new homes, 112 empty homes and 385 affordable units.

The level of new homes compared with other authorities will determine whether the council is a net gainer or loser of this funding in the longer term. It is important that this income is not viewed as a permanent income stream and that any spend against new homes bonus is separately identifiable.

6.2. Community Intrastructure Levy

The Community Infrastructure Levy (CIL) is a new levy that local authorities can choose to charge on new developments in their area. The money can be used to support development by funding infrastructure that the council, local community and neighbourhoods want.

New statutory guidance for setting CIL was issued on the 14 December 2012 under section 221 of the Planning Act 2008 and Charging Authorities must have regard to it. The checklist questions are designed to assist that all the relevant evidence in setting the CIL have been considered, and can be produced at examination.

Most of any monies raised would be spent on large infrastructure projects although there is some flexibility on spend for community projects. The levy also partly mitigates against reducing income from Section 106 monies. Potential income of £3m per annum could be raised with implementation from April 2014.

The CIL could be used as a tool for directing regeneration in Bromley by charging appropriate rates for specific developments

6.3. New Business Development

A Business Rates Retention Scheme will be introduced from April 2013. It will provide a direct link between business rates growth and the amount of money councils have to spend on local people and local services. Councils will keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. This measure is designed to provide a strong financial incentive for councils to promote economic growth.

The outcome for Bromley is that 50% of the business rates can be retained, including rates from new business, which will be split 40:60 between The Mayor of London and Bromley Council. The levels of tariff and top-up payments will remain fixed each year, but will increase in line with the Retail Price Index. They will not change until the system is reset. The Government has said that this will not occur before 2020 at the earliest. In addition, safety net payments will be available if a council's business rates income falls by 7.5%.

This is a strong incentive for Bromley to drive new business development in the borough to generate new income. GL Hearn, property consultants, were commissioned by the Council to evaluate options for development and regeneration in Bromley. They produced a report in December 2012 entitled Stimulating the Economy Study. This study shows the requirement for an additional ~120,000 m^2 of employment floorspace by 2031.

GL Hearn examined the possibility of developing a Business Park but concluded that it was unlikely to be successful, considering the established competition in Crossways, Dartford and Kings Hill, West Malling and the further development schemes in the pipeline at The Bridge, Dartford and Ebbsfleet valley with its exceptional private and public transport accessibility. Their conclusion was that there was no evident market demand for a further business park within the M25 SE quadrant at this time.

However, the consultants highlighted three areas in Bromley where the local economy could be stimulated:

Bromley Town	- intensification of office fllorspace development
Cray Valley	- strategic industrial location with demand for light industrial, trade counter and warehousing
Biggin Hill Airport	- potential for a business/innovation sector and development of aviation-related activities. It is designated as a Strategic Outer London Development Centre in the London Plan.

The critical requirement for a successful regeneration of business in Bromley is the existence/upgrading of the transport links to London. Bromley South connects Bromley Town to Victoria with train journey times of ~20 minutes.

Orpington has a direct train link to London Bridge/Cannon Street with travel times of ~20-25 minutes.

However, neither train line provides a direct link to Canary Wharf and Stratford, a future business hub with excellent air and train connections, although off-peak trains from Orpington stop at Lewisham station where passengers can change to the Docklands Light Railway (DLR). Transport for London and the Mayor have expressed their support for an extension of the DLR from Lewisham to Bromley North, which would provide that link, but it is unlikley that it will be in place before 2020, if not much later. Although the DLR is the preferred transport option to Lewisham, the existing Network Rail infrastructure from Bromley North to Lewisham should not be ignored. It could, with an upgrade at Grove Park and some extension works at Lewisham Station, provide a rail link at substantially lower cost and much sooner than the DLR extension.

<u>Bromley Town</u>

The principal envisaged development is providing further office floorspace, which is in accordance with the policy of the Town Centre AAP. Much of the existing office stock is dated and the particular challenges are in delivery terms. Whilst corporate occupiers focus on space within walking distance of Bromley South station, where the potential is for 21-30,000 sq.metres of new floor space, there are opportunities in Bromley North and the adjacent car park (former Opportunity Site A).

There is not much vacant land or land for redevelopment within this area in the short term. However GL Hearn identified potential for office development west of the High Street (Site G) or on the Civic Centre site. Smaller-scale office floorspace provision within a mixed-use scheme could cater for demand from local SMEs and for serviced offices.

<u>Cray Valley</u>

There are two distinct areas in the Cray Valley, the Cray Avenue Strategic Industrial site located near St.Mary Cray Station with transport links to Bromley South / London Victoria, and the Crayfield Business Park and Crayfield Industrial Park with excellent transport link via the A20 to the M25.

The <u>Cray Avenue Strategic Industrial Location</u> offers potential for upgrading commercial floorspace, concentrating on industrial warehouse and retail warehousing activities. GL Hearn consider that the nature of existing uses and quality of environment could possibly preclude significant demand for commercial office space in the short to medium term.

The <u>Crayfield Business Park</u> and <u>Crayfield Industrial Park</u> could provide potential for additional office floorspace. Opportunities for upgrading, intensification of use and extension of the sites onto adjoining land is possible, but the open space falls within the Green Belt. It would need a selective review of Green Belt boundaries in this area to permit local development of employment floorspace.

Modern business typically requires a higher quality environment than traditional industry and this will be one of the principal challenges for the Cray Valley corridor. Growth potential is based on a more intensive use of the existing employment land of 38,500 m^2 and could rise to over 60,000 m^2 if the open space next to the Crayfields Business and Industrial Parks could be re-designated for employment use.

Biggin Hill

This location does not benefit from strong public transport or road links, which is reflected in the modest occupancy of employment land by general office or industrial occupiers. GL Hearn consider that there is an opportunity to develop the airport as a hub for aviation-related activities, linked to developing infrastructure in hotel and training facilities, and modest office floor space.

The area is designated as a Strategic Outer London Development Centre (SOLDC) and can attract funding from The Mayor. Growth potential for new employment floor space is estimated to be 15-20,000 m^2.

Biggin Hill Airport Ltd. has formed LoCATE, the London Centre for Aviation Technology and Enterprise, to promote aviation-related economic growth at Biggin Hill. It commissioned Nathaniel Lichfield & Partners and Jones Lang LaSalle to study various development aspects, comprising hotels, conferencing facilities, retail, industrial & logistics, and offices. Both studies identify West Camp as an area for business expansion.

The presence of aviation maintenance, engineering and avionics servicing should have the potential to foster apprenticeships in collaboration with Bromley Technical College. With Formula 1 Maintenance Ltd. at West Camp these businesses could provide the core for developing a high technology “business park” activity at Biggin Hill. Assessing the potential for developing such activity should receive high priority.

Exploratory discussions have been held with Imperial College, London, who has indicated an interest in examining further how its business incubator activity could participate. Contact has been made with Surrey University to fathom their interest in participating in a possible high tech / innovation development involving their space research activity. These discussions are at a very early stage.

Penge – Anerley – Crystal Palace

The development potential in this part of Bromley borough was not studied by GL Hearn but merits to be examined as part of a borough-wide business study plan. Demographic changes are occurring in this area as commuters are finding it increasingly convenient to be based there and the same considerations could apply to businesses.

Transport links are based on three distinct main line rail routes, which connect to most London termini as well as the DLR to Docklands and beyond. These have recently been supplemented by the Overground Service, which further improves links to the docklands as well as linking to the orbital rail link. with journey times of ~30 minutes.

There are a number of business and industrial estates located between Kent House Lane and the Hayes to Charing Cross rail line. The area boasts its own, almost dedicated, railway station at Lower Sydenham, which links to Lewisham and the DLR as well as Central London. The units are well used but the general area is run down and in need of refurbishment.

Oakfield Road SE20 is another area of existing individual business and light industrial units. Currently Oakfield Road is home to a retail Diy outlet, building materials, plumbing and electrical suppliers, a high tech manufacturing company and a self storage facility. There is scope for further business or industrial development.

6.4. Becoming a Commissioning Authority

Bromley already out-sources ca. 25% of its annual expenditure to private and community service providers. There is a structural deficit in Council income of ~£13 million p.a., which is increasing because of service demand remaining, the impact of inflation and ongoing reductions in Government grants.

A study was commissioned by the Council from Peopletoo, who reported in October 2012 with “Moving to a Commissioning Authority”, recommending:

The key principles to be considered from the Council’s perspective are

1. need to maximize financial return and savings
2. maintain service quality and appropriate service levels
3. accept risks and trade-off between efficiency and control in service delivery
4. accept need for organizational change including culture, management structure and governance

Peopletoo say that developing a commissioning strategy for Bromley will require a time horizon of 5 years to full implementation and will include:

1. developing a range of strategic service delivery models
2. service transformation route map for each service
3. the commensurate organizational structure, governance model and cultural change
4. a forecast financial model
5. risk assessment and impact on support services
6. an Implementation Plan

In practical terms Bromley has the option to adopt various service delivery models:

- Outsource to private sector market
- Shared services
- Devolution of services to community organizations
- Transferring services to a wholly-owned company with trading powers
- Retained, in-house services

Peopletoo has developed a Service Transformation Route Map, which is phased, deliverable and with a balanced risk and financial return principle. The route map is based on the commissioning strategy principle, taking into account the current baseline position of each service and options for future delivery. Some members of the Working Group expressed concerns about proceeding to a commissioning authority without first having tested the concept and ascertained that it was able to provide residents with the level of service they expected.

It follows from this strategy that the Council is moving from an authority whose primary purpose is the delivery of services to the community to an authority, which maintains democratic accountability and responsibility whilst devolving the delivery of services to the local community and a range of external organizations.

This should allow large-scale rationalization of the Council's organization, asset usage and the release of significant capital assets. Potential savings of £11m per annum within 4 years have been identified but any projections must be treated with some caution at this early stage. More detailed work to assess the wider implications and the realistic scope to achieve these savings levels is needed. There would also be a requirement for one-off funding to meet the set-up cost of these changes.

The projected £11m savings within 4 years will only achieve about 1/3 of the savings needed to meet the funding gap of £39+m over the same period. The Council will therefore have to keep pursuing other cost reduction measures as well to get its budget in balance.

The release of capital assets could be used to set up Local Asset Backed Vehicles (LABV) as joint enterprise companies between the Council and the private sector to develop new business. This could be particularly appropriate for fostering new business in the Biggin Hill SOLDC.

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In order to deliver this strategic transformation the Council will need a strong Commissioning Directorate with the allocation of executive responsibility for Commissioning and the establishment of a robust governance model.

The Chief Executive has set up a task force to drive the agenda forward. In view of the looming financial gap of some £40 million in 2016/17, the Council needs to accelerate very significantly Peopletoo's leisurely time-table and shorten it to a maximum of two years so that changes have been implemented by 2015/16.

6.5. Strategic Asset Management Review

The Council needs to seek actively to sell or dispose of assets that are surplus to requirements to maximize capital receipts and to provide investment/ regeneration capital for reinvestment to generate ongoing sustainable income for the Council. Where assets no longer provide value to the community or support priorities or services in future, it remains essential to look at options for disposal.

The ongoing review will include consideration of:

(a) Opportunity cost of asset to reflect alternative use;
(b) Extent to which the asset has ongoing high maintenance costs and running costs;
(c) Consideration of open market and rental values;
(d) Opportunities for future use including development potential;
(e) Potential investment income from greater utilization of asset e.g. rent income from using surplus floor space.

The key consideration will be whether the current assets add value to service delivery or income generation. Within any final consideration it remains important to recognize that assets can make a significant non-financial contribution, which is beneficial to the Council.

A recent assessment of the Council's real estate portfolio of ~£800 million estimates that ~£50 million of it comprises properties / assets the Council does not require, which could be disposed of within the next 3 years. Disposal of about £17 million of assets is ranked as low risk and achievable, some £30 million is considered medium risk and more difficult and the balance of £4 million as quite difficult.

Not only do these assets cost the Council money for maintenance, but they are a significant source of potential capital for re-investment and driving forward business development in the borough (see section 6.3.).

Historically, disposal of surplus assets has been very slow and not overly successful. In light of the rapid transformation of the Council's financing base by

Government changes to grant funding and the looming funding gap of ~£40 million by 2016/17, it is imperative that the disposal and re-investment process is accelerated dramatically.

6.6. Procurement Savings Opportunities

The Council will continue to identify opportunities for contract savings including the review of inflation provision and re-packaging of contracts and re-negotiation to secure the best value for the Council. The 2013/14 Draft Budget reflects significant savings arising from the re-tendering of contracts. Joint bidding with neighbouring local authorities for contracts should be expanded.

6.7. Invest-To-Save

The Council established a spend-to-save dedicated reserve of £14 million in 2011/12, in order to fund opportunities to re-engineer services, which could provide longer-term savings. This represents a “loan” fund, which will require repayment as savings materialize. The Invest-to-Save monies provide short to medium term funding for key initiatives that will reduce the Council’s net budgeted costs through reducing costs and/or increasing income. A number of projects have been funded since then, notably the replacement of aged street lamps.

One area where real benefits could be generated is in the education field. The provision of SEN services requires that several people need to be sent outside the borough to receive the service they require, which is extremely costly. Bringing these aspects of the SEN service provision back into the borough could generate very significant savings, but would need some investment.

All council services are under review with the objective of improving service delivery and cost. Many such improvements could benefit from Invest-To-Save. The fundamental requirement for assessing the suitability of projects is a viable business plan, which demonstrates that savings can be achieved.

The modus operandi of the system is that the monies invested are in the form of a loan, which will need to be repaid over time. Pay-back periods must be short, not exceeding five years, in order to generate tangible savings.

6.8. Other Income Generation

The Council has an income stream outside of government grants of ~£20 million from activities such as planning, environmental services, parking, parking enforcement, and educational services. This income has been fairly consistent over the recent past and is not expected to increase dramatically.

In light of the funding changes introduced by the Government, Bromley's grant funding has been reduced and is expected to be further reduced in the near future. It is therefore of paramount importance for Bromley to increase its income in any way it can. Several measures have already been discussed in this report (section 6.1., 6.2., 6.3.).

Mapping possible council activities to generate further income is an exercise, which needs to be carried out urgently. Some potential sources of new income were discussed, such as

- Local Asset-Backed joint ventures (LABVs) with the private sector
- Assisting new small businesses by providing reduced-rent office units on short leases
- Discount Cards
- Exploiting the "Bromley Brand"
- Selling Council expertise and services more widely
- Investing the regeneration fund into rental / lease properties

<u>Local Asset-Backed joint ventures</u> could become significant income generators, such as The Glades investment has been for two decades or so. The Peopletoo report highlights the options councils have to stimulate specific growth or development using Local Asset-Backed Vehicles (LABVs). These vehicles are distinct legal entities, typically characterized by equal shares and equal representation on the management board between the public and the private sector. In return for the public sector transferring assets into the vehicle, the private sector typically injects finance, technical expertise and management know-how.

The advantages of LABVs would be the generation of income streams for Bromley, which are not dependent on Government grants, subsidies or political decisions. The risks are that they could fail, but the Council should seek to limit its downside through suitable joint venture agreements.

LABVs could be a viable business model for fostering a high-tech / innovation development at Biggin Hill by joint-venturing with suitable high-tech companies willing to relocate to the area and attracting new start-ups. Solid business cases would need to be prepared for each opportunity. Funding would need to be secured from the disposal of surplus properties and the regeneration fund.

As part of a Bromley regeneration plan, the Council needs to highlight / explore such joint venture options borough-wide.

6.9. Council Tax

It is Bromley Council's stated aim to remain among the lowest outer London Borough Council Tax authorities. The Council has been successful in the past in achieving this aim, but in the light of further funding cuts from the Government, coupled with ever-increasing service cost pressures, the possibility that Council Tax will need to increase more in future to bridge the widening funding gap cannot be dismissed.

Every 1% rise in Council Tax raises an income of £1.2 million. Increases have been limited by the Government to 2% p.a. in 2013/14. As part of the Localism Act, any council tax increase that exceeds 2% will trigger an automatic referendum of all registered electors in the borough.

A referendum could take the form of highlighting the services and their cost, which would push council tax above the 2% threshold, and ask residents to vote on which of these services they would wish to keep and pay for. If the registered electors were not, by a majority, to support an increase above 2% then services would need to be cut and the Council would be required to meet the cost of rebilling.

7. CONCLUSIONS AND RECOMMENDATIONS

Changes introduced by the Local Government Finance Act 2012 are having a profound impact on Bromley Council's finances, forcing the Council to adapt its business model.

In a period where western economies face a demographic time bomb (ageing population), which could erode the wealth of nations for a generation and face the longest slump for more than a century, the period of austerity will continue for a longer period of time, possibly beyond 2020. Against this backdrop the Council must prepare to address the impact of a long period of austerity.

Grant funding from the Government is being reduced, whilst cost pressures on services continue to increase, widening the structural deficit. In reality the scale of Government funding reductions will result in the need to stop or reduce some services. The burden of the 1,335 statutory duties on the Council will need to be reduced by the Government in the longer term to match the funding available.

The Council has taken significant steps to reduce its cost base whilst protecting front line service delivery and keeping council tax low. However, these measures alone will not bridge the future funding gap, having rigorously streamlined the Council's services over the past two years, as there are not many further efficiency savings, which can be made in this way.

It is imperative, therefore, that the Council adapts its business model to generate more income locally and to drive for business growth. Painful changes will now need to be made to the quantum and delivery of Council services and considerable changes to the Council's organization have become inevitable. The Council will need to emerge as a different organization in the medium term, moving from an authority whose primary purpose is the delivery of services to the local community to a commissioning authority, which maintains democratic accountability and responsibility.

The projected ~£11m savings from becoming a commissioning authority will only achieve about 1/3 of the savings needed to meet the projected funding gap of £39+m in 4 years' time. The Council will therefore have to keep pursuing other cost reduction measures as well to get its budget in balance, coupled with the overwhelming need to increase the Councils' income.

The principal measures proposed envisage the development of new business in Biggin Hill, the Cray Valley corridor, Bromley Town, and Penge and the creation of other income streams.

In order to achieve these objectives it will require innovative thinking and entrepreneurship, considering the setting-up of Local Asset Backed Vehicles (LABVs), optimizing the use of in-house skills complemented by external expertise, the retention of skilled staff, the involvement of experienced Members, coupled with a continued drive to maximize the use of assets.

This Report is very much Work-In-Progress and not intending to cover all options to address the Council's funding gap

The Council is currently identifying measures to achieve future savings, containing growth, baseline reviews, achieving contract savings, etc. and this work must continue with some urgency to ensure that the required changes can be planned consistently.

This Report's recommendations focus on particular, complementary initiatives, which the Council should take without delay. The Council has already begun to implement some aspects of the recommendations this Working Group is making but much work remains to be done.

Recommendation 1: New Business Development

It is vital that the Council encourages new business development, not only to benefit from the retention of business rates but also from increased employment and the benefits, which flow from this into the local economy. These new income streams are vital for financing Council services and for counter-acting ongoing cuts in grant funding.

It is **recommended** that the Council sets up as soon as practicable a multi-disciplinary task force comprised of Members & officers with the necessary, comprehensive and complementary skills to take action and drive this new business development forward. It is anticipated that several business models will need to be prepared to suit local circumstances.

It is further **recommended** that the Council should embrace the idea of setting up of LABVs where appropriate, in order to develop income streams, which are independent of Government influence. This could be particularly applicable in the Biggin Hill SOLDC for attracting high-tech / innovative businesses. Solid business cases will need to be prepared for each proposal.

The principal areas for new business development are Biggin Hill, the Cray Valley corridor, Bromley Town and Penge-Anerley-Crystal Palace..

Recommendation 2: Becoming a Commissioning Authority

The Council has embraced the need to transform its business from a local authority delivering services to a commissioning authority. The Chief Executive has set up a task force to enact this development.

It is **recommended** that this task force should be Member-led and that in view of the looming financial gap of some £40 million in 2016/17, the Council accelerates very significantly the leisurely time-table proposed by the consultants and shortens it to a maximum of two years, so that changes can begin to generate benefits by 2015/16.

It is further **recommended** that the Council create a robust governance model to manage the new structure effectively. This work needs to commence now and be synchronized with the commissioning agenda, so that the governance structure is in place by 2015/16.

Recommendation 3: Disposal of Surplus Properties

The Council needs to seek actively to sell or dispose of assets that are surplus to requirements to maximize capital receipts to generate re-investment and re-generation capital. Although efforts for streamlining the Council's asset portfolio have been ongoing for several years, they have not been overly successful.

It is **recommended** that the Council form a Task Force with all requisite skills, including Members, to accelerate dramatically the disposal of these surplus assets and to adopt flexible and innovative ways to achieve this objective.