

Decision Maker: **Executive**

Date: **11<sup>th</sup> February 2015**

Decision Type: Non-Urgent Executive Key

**TITLE: 2015/16 Council Tax**

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Director: Director of Finance

Ward: Borough wide

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## 1. REASON FOR REPORT

- 1.1 This report identifies the final issues affecting the 2015/16 revenue budget and seeks recommendations to the Council of the level of the Bromley element of the 2015/16 Council Tax. Confirmation of the final GLA precept will be reported to the Council meeting on 23rd February 2015. The report also seeks final approval of the "schools budget". The approach reflected in this report is for the Council to not only achieve a legal and financially balanced budget in 2015/16 but to have measures in place to deal with the medium term financial position (2016/17 to 2018/19).
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## 2. RECOMMENDATIONS

2.1 The Executive is requested to recommend to Council that it:

- (a) Approves the schools budget of £99.1m which matches the estimated level of Dedicated Schools Grant (DSG);
- (b) Approves the draft revenue budgets (as in Appendix 2) for 2015/16;
- (c) Agrees that Chief Officers identify alternative savings within their departmental budgets where it is not possible to realise any proposed savings reported to the previous meeting of the Executive held on 14<sup>th</sup> January 2015;
- (d) Approves a contingency sum of £13.5m (see section 5);

- (e) Approves the following provisions for levies for inclusion in the budget for 2015/16:

	£'000
London Pension Fund Authority *	509
London Boroughs Grant Committee	340
Environment Agency (Flood defence etc.) *	248
Lee Valley Regional Park *	411
<b>Total</b>	<b>1,508</b>

\* Provisional estimate at this stage

- (f) Notes the latest position on the GLA precept, which will be finalised in the overall Council Tax figure to be reported to full Council (see section 11);
- (g) Considers the “Bromley element” of the Council Tax for 2015/16 to be recommended to the Council, having regard to possible “referendum” issues (see section 15);
- (h) Approves the approach to reserves outlined by the Director of Finance (see Appendix 4);
- (i) Notes that any decision on final council tax level will also require additional “technical” recommendations, to meet statutory requirements, which will be completed once the final outcome of levies are known at the full Council meeting (see 15.7);
- (j) Agrees that the Director of Finance be authorised to report any further changes directly to Council on 23rd February 2015.

## Corporate Policy

Policy Status: Existing Policy

BBB Priority: Excellent Council

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## Financial

1. Cost of proposal: N/A
  2. Ongoing Costs: Recurring costs – impact in future years detailed in Appendix 1
  3. Budget head/performance centre: Council wide
  4. Total budget for this head £129m Draft 2015/16 Budget (excluding GLA precept)
  5. Source of funding: See Appendix 2 for overall funding of Council's budget
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## Staff

1. Number of staff (current and additional): total employees – full details will be available with the Council's 2015/16 Financial Control Budget to be published in March 2015
  2. If from existing staff resources, number of staff hours – N/A
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## Legal

1. 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 is applicable
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## Customer Impact

Estimated number of users/beneficiaries (current and projected) - the 2015/16 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 Councillors Views

1. Have ward councillors been asked for comments? N/A
2. Summary of Ward Councillor comments: Council wide

### **3. Previous Reporting to Members**

- 3.1 There was a presentation for the Members Finance Seminar on 12<sup>th</sup> June 2014 which is available on “One Bromley” which provides some detailed financial context.
- 3.2 The “Draft 2015/16 Budget and Update on the Council’s Financial Strategy 2016/17 to 2018/19” was reported to the Executive on 14<sup>th</sup> January 2015. Key matters reflected in the report included, for example:

*(Please note appendices and sections shown below refer to the report to the meeting of the Executive on 14<sup>th</sup> January 2015)*

- (a) The Economic Situation which can impact on Public Finances (Appendix 1);
- (b) Council Tax Levels, Government Funding and Spend Levels (Appendix 2 and Section 19);
- (c) Various Key Changes/Proposals/Issues that could impact on the Council’s Finances (Appendix 3);
- (d) Real Changes including Cost Pressures etc. (Appendix 5);
- (e) Proposed savings (Appendix 6);
- (f) Detailed Draft 2015/16 Budget (Appendix 7)
- (g) Options being undertaken with a “One Council” approach (Section 11 of the report);
- (h) Budget Consultation 2014 ( Appendix 8);
- (i) Risk Areas within each Portfolio (Appendix 9);
- (j) Future Local Authority Landscape (Section 13).

All of the above should be considered with this report as part of finalising the 2015/16 Budget and council tax levels.

### **4. 2015/16 Draft Budget and changes since last meeting of Executive**

- 4.1 The last report to the Executive identified a significant “budget gap” over the four year financial planning period. The main updates are shown below:
- (a) The report includes an update on inflation provision to reflect the latest annual increase in RPIX of 1.7% (2% in previous month). This change has been factored into the draft 2015/16 budget and future year projections. Significant falls in oil prices have contributed to the latest inflation position
  - (b) It is too early to gage the impact of the announcement of a quantitative easing programme worth at least €1 trillion combined with the political uncertainty in the euro zone and the resultant impact on the UK’s future economic growth.
- 4.2 A summary analysis of key variations in the draft 2015/16 Budget, compared with the 2014/15 Budget, including further saving options required to balance the budget for 2015/16 and changes since the report to the meeting of the Executive on 14<sup>th</sup> January 2015, are shown in Appendix 1 and summarised below.

Variations Compared with 2014/15 Budget

	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m
Cost Pressures				
Inflation	4.0	8.1	12.4	16.6
Grant Loss	11.0	22.1	37.1	44.1
Real Changes considered by Executive in January 2015	6.4	11.9	14.6	17.8
<b>Total Additional Costs</b>	<b>21.4</b>	<b>42.1</b>	<b>64.1</b>	<b>78.5</b>
Income/ savings				
Saving proposals considered by Executive in January 2015	-8.8	-11.7	-11.7	-11.7
Funding from Better Care Fund towards protection of social care	-3.3	-3.3	-3.3	-3.3
Impact of revised Treasury Management Strategy	-1.1	-1.1	-1.1	-1.1
Increase in property numbers (council tax base)	-0.9	-0.9	-0.9	-0.9
<b>Total income/ savings</b>	<b>-14.1</b>	<b>-17.0</b>	<b>-17.0</b>	<b>-17.0</b>
Other Proposed Changes				
New Homes Bonus	-4.4	-4.7	-4.7	-4.7
New Homes Bonus – contribution to Investment Fund	4.4	4.7	4.7	4.7
Collection Fund Surplus (2012/13) set aside as one off support towards meeting funding shortfall in 2015/16	-3.0	0.0	0.0	0.0
Collection Fund Surplus 2013/14	-2.3	0.0	0.0	0.0
Reduction in business rate share	0.5	0.5	0.5	0.5
	<b>-4.8</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
Impact of 1.99% increase in Council tax	<b>-2.5</b>	<b>-5.0</b>	<b>-7.6</b>	<b>-10.0</b>
<b>Remaining “Budget Gap”</b>	<b>0.0</b>	<b>20.6</b>	<b>40.0</b>	<b>52.0</b>

*The above table shows, for illustrative purposes the impact of a council tax increase of 1.99% in 2015/16. Each 1% council tax increase generates on-going annual income of £1.26m.*

- 4.3 These variations are subject to any final decision on Council Tax levels. Appendix 2 derives an illustrative ‘Bromley element’ Council Tax of £1,030.14 (1.99% increase) and Appendix 3 includes the Draft 2015/16 Central Contingency Sum. Appendix 2 is based on draft portfolio/departmental budgets, the draft contingency provision and the latest assumptions for levies. This sum excludes the GLA precept.
- 4.4 The above table identifies that a balanced budget can be achieved for 2015/16 and the Council will need to identify further savings in future years to achieve a balanced budget in the medium term. The remaining “budget gap” of £20.6m in 2016/17 rising to £52.0m per annum in 2018/19 highlights that 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. The “budget gap” may increase or reduce as a result of a number of variables in future years.

- 4.5 The Council has to plan for a very different future, i.e. several years of strong financial restraint. The future year's financial projections shown in Appendix 1, includes a planning assumption of ongoing reductions in Government funding in 2016/17, 2017/18 and 2018/19. Projections need to be treated with caution as there remains significant uncertainty relating to any future changes arising from the outcome of the general election in May 2015 as well as the impact of recent Government changes which includes for example, Care Act, the longer term impact of the Better Care Fund, and further funding reductions from 2016/17. It is important to recognise that the downside risks remain as well as limited opportunities for improvement in the overall financial position in future years.
- 4.6 Further changes will be required, prior to the report to full Council on 23rd February, for the finalisation of the Council Tax, to reflect latest available information on levies and the GLA precept.
- 4.7 The key growth pressures reported to the previous meeting of Executive are summarised below:

	2015/16 £'000	2018/19 £'000
Full year effect of social care overspends in 2014/15	3,022	3,022
Homelessness/impact of welfare reforms	1,100	4,300
Increase in net cost of waste services	871	1,569
Removal of contracted out national insurance from 2016/17	0	1,300
Changes in parking enforcement – reduction in income	1,000	1,000
Impact of auto enrolment	100	700
Deprivation of Liberty	628	628
Cost of freedom passes (mainly usage)	245	1,745
Provision for future years cost pressure not included above		1,700
Reduction in rate of schools converting to academies compared with 2014/15 Budget assumptions	-956	45
Other growth pressures (net)	347	1,840
Total	6,357	17,849

- 4.8 If further growth pressure continues in these areas, as well as other areas, then further cost pressures will increase the future years “budget gap”.
- 4.9 In considering action required to address the medium term “budget gap”, savings for 2015/16 were reported to the previous meeting of the Executive. These savings (see below) were reported through PDS Committees and their comments will be circulated separately prior to the meeting of the Executive.

	2015/16 £'000
Reduction in staffing and further efficiencies	3,200
Additional income	2,055
Changes in service delivery	1,893
Contract Efficiencies	1,454
Funding of staff costs through Growth Fund	164
Total	8,766

The savings of £8,766k increase to £11,669k per annum by 2016/17.

## **5. Draft 2015/16 Central Contingency Sum**

- 5.1 Details of the 2015/16 Draft Contingency Sum of £13,534k have been included in Appendix 3. This sum allows for proper financial planning and ensures the council is prepared for changes in financial circumstances. There may be further changes to the Central Contingency to reflect allocations to individual Portfolio Budgets which will be reflected in the Financial Control Budget. This will ensure that budget holders will have all their individual budgets updated early in the financial year. Such changes will not impact on the Council's overall 2015/16 Budget.

## **6. Earmarked Reserves**

- 6.1 At the meeting of the Executive on 14<sup>th</sup> January 2015, Members agreed as part of the draft 2015/16 Budget the setting aside of the 2015/16 New Homes Bonus (£4,400 after top-slice) as a contribution to the earmarked reserve for the Investment Fund.
- 6.2 As reported to the Executive previously, the Council has reduced its level of general reserves (general fund reserves in 1997 were £131 million). Part of the reduction reflects the funding towards the Invest to Save Fund, Growth Fund and Investment Fund. These funds will help support the achievement of sustainable savings/income to the Council. The Council will continue to seek opportunities to increase the Economic Development and Investment funds to support the purchase of investment properties (generating income) as well meet future plans to invest in employment growth areas of Biggin Hill, Bromley Town Centre and the Cray Business Corridor.
- 6.3 Reserves are one off monies and are utilised to resource investment in schemes that will deliver long terms savings, support economic development, create employment opportunities and enable income opportunities as well as have sufficient resources to manage financial risks during this unprecedented period of austerity. It is not financially sustainable to use Council reserves as part of the revenue budget to fund ongoing service costs.
- 6.4 The position on reserves is reported to Executive as part of the final accounts report in June each year as well as the Council Tax report to Executive in February each year. Bromley's overall reserves are expected to remain below average for London and have to be considered in the context of an underlying "budget gap" of over £52m per annum by 2018/19.
- 6.5 Further details of earmarked reserves are provided in Appendix 4

## **7. 2014/15 Financial Monitoring**

- 7.1 There continue to be significant cost pressures in social care which is reflected in the 2014/15 Financial Monitoring report elsewhere on this agenda. The majority of the full year impact of the in-year overspends on social care are reflected in the 2015/16 Budget, including the impact of action to reduce the overspend and its associated full year effect
- 7.2 A sum of £1.2m was set aside in the 2014/15 contingency budget to reflect additional homelessness costs. In October 2014 Executive agreed to drawdown £653k to meet cost pressures with the remaining monies being used for a capital contribution for works at Manorfields for temporary accommodation which will generate a revenue savings and avoid costly bed and breakfast accommodation. The financial forecast assumes further costs of £4.3m per annum from 2018/19 compared with the 2014/15 Budget.

7.3 Other variations, including, for example, the future containment of costs within Portfolio Budgets have been reflected in the draft 2015/16 Budget. Directors continue to identify options to manage these other cost pressures.

## **8. The Schools Budget**

8.1 The latest funding for the Schools' Budget was reported to the previous meeting of the Executive including an announcement of an additional £19.5m to be added to the schools block for distribution to schools for 2015/16.

8.2 The Schools' Budget includes the delegated budgets for individual schools and also other pupil-led services such as Special Educational Needs, pre school provision and pupils excluded from schools. The ring fenced Dedicated Schools Grant (DSG) funds the Schools' Budget, and so there is no funding required from the Revenue Support Grant or Council Tax.

8.3 The ringfencing of this grant results in a continuation of minimal scope to redirect resources from the Schools Budget to other services.

8.4 The use of the DSG will be subject to consultation with Members, Governors, Head Teachers, the Schools Forum and other interested parties. The Education Portfolio Holder will make a final decision, following this consultation, at his meeting on 27<sup>th</sup> January 2015.

## **9. Levies**

9.1 Miscellaneous levies must be charged to the General Fund and shown as part of Bromley's expenditure on the Council Tax bill. The levy figures in Appendix 2 are based on the latest information but many are still provisional. Any changes will be reported at the meeting of the Council on 23<sup>rd</sup> February 2015 and will impact on the final council tax level. The London Boroughs Grants Committee is required to apportion its levy on a population basis but the other levying bodies must use the Council Tax base.

## **10. Collection Fund**

10.1 It is a statutory requirement to maintain a Collection Fund at arms length from the remainder of the Council's accounts.

10.2 The 2014/15 Budget included the one off release of a surplus of £3.853m of which £0.889m relates to the GLA precept and allowed for the net sum of £2.964m to be set aside to reduce the "budget gap" in 2015/16. In addition, there is a sum of £2.3m, as reported in the Provisional 2013/14 Final Accounts report to Executive in June 2014 consisting of a council tax collection fund surplus of £2.9m offset by a business rate share deficit of £0.6m. There have been no changes to the council tax base since the previous meeting of the Executive.

## **11. The Greater London Authority Precept**

11.1 The GLA's 2015/16 Draft Budget has been issued for consultation and includes proposals for a reduction of 1.3% in existing GLA precept levels for 2015/16. The final GLA precept for 2015/16 is expected to be announced after the Assembly has considered the Mayor's draft consolidated budget on 23<sup>rd</sup> February 2015.



## 12. Council's Capital Programme, Utilisation of General Reserves and Building Maintenance

- 12.1 The latest estimated general fund (revenue) balance at 31<sup>st</sup> March 2015 is £20.5m as shown in the "Budget Monitoring 2014/15" report elsewhere on this agenda, is provided below:

	2014/15 Projected Outturn £Million
General Fund Balance as at 31 <sup>st</sup> March 2014	20.0
Impact of net projected underspends reflected in the 2014/15 budget monitoring report elsewhere on this agenda	+2.0
Adjustment to Balances: Carry forwards (funded from underspends in 2013/14)	-1.5
Estimated General Fund Balance at 31 <sup>st</sup> March 2015 (end of year)	20.5

- 12.2 Bromley's Capital programme is mainly funded by external government grants and contributions from TfL. There are, however, a number of schemes funded from capital receipts.
- 12.3 The "Capital Programme Monitoring Q3 2014/15 & Annual Capital Review 2015 to 2019" report highlights the financial implications of the proposed capital programme and the impact on revenue balances. Members were previously advised of the importance of the financial strategy of retaining rolling programme schemes within the Council's revenue budget (final year of transfer of rolling programme to revenue was in 2009/10) and to avoid dependency on revenue reserves to support the revenue budget.
- 12.4 Alongside the introduction of the new prudential code for capital spending, the Director of Finance is required to report to the council on the appropriateness of the level of reserves held by the council and the sustainability of any use of reserves to support the revenue budget. The detailed advice is contained in Appendix 4.
- 12.5 The 2015/16 Draft Budget includes the Council's building maintenance programme. Details of the utilisation of these monies are reported elsewhere on this agenda.

## 13. Consultation

- 13.1 Executive, at its meeting on 14<sup>th</sup> January 2015, requested that the "Draft 2015/16 Budget and Update on Council's Financial Strategy 2016/17 to 2018/19" report and the saving options are considered by individual PDS Committees. PDS Committees comments relating to the report in January will be circulated separately. Such consideration will enable the Executive to take into account those views as part of agreeing its final recommendations to the Council meeting on 23rd February 2015 where the 2015/16 Budget and Council Tax will be agreed.
- 13.2 Two separate resident association meetings and two wider public meetings relating to "Our Budget Your Views" in November 2014 with a new web survey seeking the public's views online (with a closing date of 7 December 2014) were held and the outcome was reported to the previous meeting of the Executive.

- 13.3 Meetings have taken place with Head Teachers, Governors and the Schools Forum. Following consultation, spending decisions will be taken by the Education Portfolio Holder on 27<sup>th</sup> January 2015.
- 13.4 Consultation papers have been sent to Bromley Business Focus, Federation of Small Businesses (Sevenoaks & Bromley Branch) and the 20 largest business ratepayers in the borough. At the time of writing this report no responses have been received. Any verbal updates on responses will be provided at the meeting of the Executive.
- 13.5 Chief Officers' indicative saving options were referred by the Executive in January and, where appropriate, the consultation process is being undertaken and the outcome to date will be reported to the meeting.

#### **14. Position by Department – Key Issues/Risks**

- 14.1 There remain significant cost pressures for future years particularly relating to homelessness and social care. Although additional funding has been provided, without action to contain any further cost pressures, alternative savings would need to be identified.
- 14.2 Details of the potential risks which will be faced in future years, as part of finalising the 2015/16 Budget, were reported to the previous meeting of the Executive. The level of balances held by the Council provides significant safeguards against any adverse financial pressures.

#### **15. Council Tax Level 2015/16**

- 15.1 The current overall Council Tax (Band D equivalent) includes the "Bromley element" relating to the cost of the council's services and various levies of £1,010.07 in 2014/15 and a further sum of £299.00 for the GLA precept (providing a total Band D equivalent Council Tax of £1,309.07).
- 15.2 For 2015/16 every £1m change in income or expenditure causes a 0.8% variation in the "Bromley element" of the Council Tax. Each 1% council tax increase generates ongoing annual income of £1.26m.
- 15.3 As part of the 2015/16 Local Government Financial Settlement, council tax freeze grant for 2015/16 will continue (since 2014/15) to be included in future years base funding. The Council would receive a council tax freeze grant of £1.39m if council tax levels were unchanged. A council tax increase of 1.99% equates to income of £2.51m. Compared with a Council tax increase of 1.99% the Council would forego ongoing annual income of £1.12m.
- 15.4 If the Council agrees an increase which exceeds the referendum trigger of 2% and above, an automatic referendum will be required of all registered electors in the borough. If the registered electors do not, by a majority, support an increase of 2% and above then the Council would be required to meet the cost of rebilling of approximately £100k. The one off cost of a referendum is up to £400k.
- 15.5 The table below identifies the changes required to the draft 2015/16 Budget to achieve different levels of increases in the Bromley element of the council tax and also illustrates that a decision to freeze council tax, compared with an increase above 1.1%, will result in a permanent loss of income. An increase of 1.99% has been assumed in the 2015/16 Draft Budget, at this stage.

### Increases in Council Tax Levels

Bromley Element % Increase in 2015/16	Additional Income 2015/16 £'m	Ongoing Income 2015/16 £'m
Freeze	-1.39	-1.39
1.0	-1.26	-1.26
1.5	-1.89	-1.89
1.99 *	-2.51	-2.51

\*Assumed in draft 2015/16 Budget

- 15.6 Any decision on council tax levels will need to be based on a medium term view and therefore not only consider the financial impact on 2015/16 but also the longer term impact over the four year forecast period.
- 15.7 The Council tax Referendum Principles are not expected until mid-February and may change the existing calculation. Any final recommendations on council tax levels will need to take into account any changes to statutory requirements.
- 15.8 Members should note that Bromley has the lowest Band D Council tax in Outer London, using Office for National Statistics categories. Bromley had the second lowest Settlement Funding per head in London partly reflecting a low perceived need to spend. Bromley's lowest Council Tax in outer London is particularly noticeable when compared to other low grant funded boroughs that in some cases have the highest level of Council Tax. More details were included in the "Draft 2015/16 Budget and Update on Council's Financial Strategy 2016/17 to 2018/19" report to the meeting of the Executive on 14<sup>th</sup> January 2015.
- 15.9 Members are asked to consider the impact of the latest draft budget on the level of Council Tax for 2015/16, having regard to all the above factors, including the Director of Finance comments in Appendix 4.
- 16. Medium Term Financial Planning**
- 16.1 The detailed approach of the Council towards budgeting over the medium to longer term was reported to Executive on 14<sup>th</sup> January 2015 and the draft 2015/16 Budget and future years forecasts reflect the impact of this approach.
- 16.2 The Council has had to take significant action to reduce the cost base while protecting priority front line services, keeping council tax low, continuing to provide resources for investing in the future and providing sustainable longer term solutions. The scale of savings required is evidence that this remains the most challenging budget process undertaken by the Council in recent times. In order to continue to provide priority services the Council will need to radically review existing service provision, reduce overall resources to match reduced funding and continue to mitigate against cost pressures being forecast. In the future Bromley will be a different council – fewer staff numbers, probably a smaller proportion of staff in direct employment and certainly a smaller management structure.
- 16.3 Council tax has been kept low and the proposals include retaining investment resources (new homes bonus) to meet the "sustainability" requirements. There will be increasing financial volatility, uncertainty and risk and the Council faces the challenge of delivering a balanced budget over the medium term. Stewardship and delivering sustainable finances are increasingly important during the ongoing period of austerity which impacts on local government funding. It is probable that the situation will remain volatile in the medium term requiring ongoing changes in our detailed approach but the framework should be one of tight financial forecasts and control linked to a clear strategic service direction.

- 16.4 The council has taken a prudent approach to identify and deliver front loading efficiency savings. This together with being debt free and healthy reserves places the council in a strong position to respond to the challenges that will undoubtedly arise. The strategy needs to remain flexible and the Council's reserves resilient to respond to the impact of volatile external events and the structural budget deficit during this austerity period.

## **17. POLICY IMPLICATIONS**

- 17.1 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
- 17.2 "Building a Better Bromley" refers to aims/outcomes that include "remaining amongst the lowest Council tax levels in Outer London" and achieving a "sustainable council tax and sound financial strategy".

## **18. PERSONNEL IMPLICATIONS**

- 18.1 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

## **19. LEGAL IMPLICATIONS**

- 19.1 The Local Authorities (Standing Orders) (England) Regulations 2001 deal, amongst other things, with the process of approving the budget. Under these provisions and the constitution, the adoption of the budget and the setting of the council tax are matters reserved for the Council upon recommendation from the Executive. Sections 73-79 of the Localism Act 2011 has amended the calculations billing and precepting authorities need to make in determining the basic amount of Council tax. The changes include new sections 31A and 31B to the Local Government Finance Act 1992 which has modified the way in which a billing authority calculates its budget requirement and basic amount of Council Tax. These calculations are required to be presented to and be subject to formal resolution by the Council
- 19.2 Schedule 5 to the Localism Act 2011 inserted a new section 52ZB in the 1992 Act which sets out the duty on billing authorities, and precepting authorities to each determine whether their relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, the provisions in relation to the duty to hold a referendum will apply (see 15.4).
- 19.3 The introduction of the Education Act 2005 has changed the procedure for the setting of schools budgets. The Act has introduced the concept of a funding period, which allows for the introduction of multiple year budgets rather than the setting of financial year budgets.

- 19.4 The Schools Finance (England) Regulations 2005 introduced under the provisions of the new Section 45AA of the School Standards and Framework Act 1998, place a requirement on the LEA to determine schools budgets by the 31<sup>st</sup> March. Notice of a schools determination must be given to maintained schools governing bodies. Contained within the regulations is a designated procedure that allows the LEA to predetermine schools budget and the individual schools budget. There is also a provision allowing amendment to the determination, but any reduction in budget can only be proportionate to any reduction in the dedicated schools grant that has been received.
- 19.5 The making of these budget decisions is a statutory responsibility for all Members. Members should also have regard to the changes from the Localism Act relating to council tax increases (see 15.4). As previously a lawful Council Tax must be set by 11<sup>th</sup> March 2015.
- 19.6 The Local Government Act 2003 included new requirements to be followed by local authorities, which includes the CIPFA Prudential Code. This includes obligations, which includes ensuring the adequacy of future years reserves in making budget decisions.
- 19.7 “The Public Sector Equality Duty, at section 149 of the Equality Act 2010, requires public bodies such as the Local Authority to consider all individuals when carrying out their day to day work – in shaping policy, in delivering services and in relation to their own employees. It requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people when carrying out their activities. The Act covers discrimination because of a ‘protected characteristic’- age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 19.8 In fulfilling our equalities duty, and in particular the specific equalities duty, regard has been had to the impact of budget proposals and savings options on those with ‘protected characteristics’, As part of the budget setting process where appropriate impact assessments have been performed at service level where service managers and frontline staff will be involved in implementing the changes and fully understand the customer base and likely impact on them.
- 19.9 In some instances detailed analysis will be undertaken after the budget has been set but before a policy arising from the budget is implemented. In these instances the council will comply with its legal obligations including those relating to equalities and consultation and if a proposal is deemed to be unsustainable after such detailed work or where a disproportionate impact on a protected group is identified consideration will be given to any necessary mitigation, rephrasing or substitution of the proposed service changes.

<b>Background documents</b>	<p>Budget Monitoring 2014/15 (Executive 11<sup>th</sup> February 2015);  Capital Programme Monitoring Q3 2014/15 and Annual Capital Review 2015 to 2019 (Executive 11<sup>th</sup> February 2015);  Draft 2015/16 Budget and Update on Council's Financial Strategy 2016/17 to 2018/19 (Executive 14<sup>th</sup> January 2015);  Council Tax Support/Reduction – 2015/16 (Executive 14<sup>th</sup> January 2015);  Growth Fund Update (Executive 26<sup>th</sup> November 2014);  Temporary Accommodation Update – Use of Manorfields as Temporary Accommodation (Executive 15<sup>th</sup> October 2014);  Homelessness and Welfare Reform Draw Down from Central Contingency (Executive 15<sup>th</sup> October 2014);  Treasury Management – Investment Strategy Review and Q1 Performance 2014/15 (Executive 10<sup>th</sup> September 2014);  Care Act 2014 Impact (Care Services PDS Committee 2<sup>nd</sup> October 2014);  Approval of Better Care Fund Financial Arrangements (Executive 19<sup>th</sup> September 2014);  Acquisition of Investment Properties (Executive 10<sup>th</sup> September 2014);  Operational Property Review and Disposal Opportunities (Executive 10<sup>th</sup> September 2014);  Acquisition of Investment Properties (Executive 10<sup>th</sup> September 2014);  Provisional Final Accounts 2013/14 (Executive 10<sup>th</sup> June 2014);  Economic Development and Investment Fund (Executive 16<sup>th</sup> July 2014);  Deprivation of Liberty Safeguards – Funding Request (Executive 16<sup>th</sup> July 2014).</p>
<b>Financial Considerations</b>	Covered within overall report

## Financial Forecast 2015/16 to 2018/19

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
<b>Bromley's Budget Requirement in 2014/15 (before funding from Formula Grant)</b>	202,736	202,736	202,736	202,736	202,736
Formula Grant and Business Rate Share	-77,296	-77,296	-77,296	-77,296	-77,296
	<u>125,440</u>	<u>125,440</u>	<u>125,440</u>	<u>125,440</u>	<u>125,440</u>
Increased costs		4,035	8,193	12,317	16,549
Net reduction in core funding		10,989	22,148	37,148	44,148
Impact of revised Treasury Management Strategy - Interest on Balances		-1,150	-1,150	-1,150	-1,150
Real Changes and other Variations					
Education, Care and Health Services (mainly homelessness and full year effect of 2014/15 overspend)		4,346	6,448	7,026	8,535
Environment (mainly changes in parking enforcement and growth in waste services)		1,974	2,543	2,769	2,996
Renewal and Recreation (statutory planning fees)		27	54	81	108
Other (mainly council wide)		10	2,010	3,110	3,910
Provision for future years cost pressures not included above		0	800	1,600	2,300
Sub total - real changes and variations		<u>6,357</u>	<u>11,855</u>	<u>14,586</u>	<u>17,849</u>
Sub total		145,671	166,486	188,341	202,836
Better Care Fund - Funding for the "protection of social care" (assumes continuation of funding from 2016/17)		-3,250	-3,250	-3,250	-3,250
Reduction in business rate share		510	510	510	510
Collection Fund Surplus 2012/13 set aside in 2014/15 to support 2015/16 budget gap		-2,964	0	0	0
Net collection fund surplus 2013/14 (Council tax £2.9m less NNDR deficit of £0.6m)		-2,300	0	0	0
		<u>-4,754</u>	<u>510</u>	<u>510</u>	<u>510</u>
New Homes Bonus (includes top slice reduction from 2015/16)		4,400	4,700	4,700	4,700
Contribution to Investment Fund		-4,400	-4,700	-4,700	-4,700
		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Remaining Sum to be met from Council Tax/Budget Options		137,667	163,746	185,601	200,096
<b>Savings proposals considered by Executive in January 2015</b>		<b>-8,766</b>	<b>-11,669</b>	<b>-11,669</b>	<b>-11,669</b>
Increase in council tax (assume 1.99% per annum)		-2,511	-5,040	-7,560	-10,080
Current Council Tax Income (updated council tax base from 2015/16)	-125,440	-126,390	-126,390	-126,390	-126,390
<b>Remaining "Budget Gap"</b>	<b>0</b>	<b>0</b>	<b>20,647</b>	<b>39,982</b>	<b>51,957</b>

## Summary of Draft 2015/16 Revenue Budget

2014/15	Portfolio/Item	2015/16	2015/16
Budget		Draft	Band "D"
£'000		£'000	Equivalent
			£
119,542	Education	103,442	826.68
Cr 114,893	Less costs funded through Dedicated Schools Grant	Cr 99,057	Cr 791.63
4,649	Sub total	4,385	35.05
104,940	Care Services	103,991	831.06
32,699	Environment	32,316	258.26
2,526	Public Protection and Safety	2,080	16.62
8,371	Renewal and Recreation	8,353	66.76
31,769	Resources	30,020	239.91
7,450	Non Distributed Costs & Corporate & Democratic Core	7,599	60.73
192,404	Total Controllable Budgets	188,744	1,508.39
16,827	Total Non Controllable Budgets	20,997	167.80
Cr 917	Total Excluded Recharges	Cr 912	Cr 7.29
208,314	Portfolio Total	208,829	1,668.90
Cr 15,735	Reversal of Net Capital Charges	Cr 19,698	Cr 157.42
Cr 1,591	Interest on General Fund Balances	Cr 2,741	Cr 21.91
8,004	Contribution to Investment Fund and Other Reserves	4,400	35.16
-	Use of collection fund surplus	Cr 2,964	Cr 23.69
11,850	Central Contingency Sum	13,534	108.16
	Levies		
486	- London Pension Fund Authority	509	4.07
310	- London Boroughs Grants Committee	340	2.72
236	- Environment Agency	248	1.98
391	- Lee Valley Regional Park	411	3.29
212,265	Sub Total	202,868	1,621.26
Cr 42,031	Revenue Support Grant	Cr 32,769	Cr 261.88
Cr 35,265	Business Rates Retention	Cr 34,409	Cr 274.99
Cr 144	Local Services Support Grant	Cr 89	Cr 0.71
Cr 2,964	Collection Fund Surplus	Cr 2,300	Cr 18.38
Cr 1,381	Council Tax Freeze Grant	-	-
Cr 5,040	New Homes Bonus	Cr 4,400	Cr 35.16
125,440	Bromley's Requirement (excluding GLA)	128,901	1,030.14



## 2015/16 CENTRAL CONTINGENCY SUM

£'000

**Environmental Services**

Street Environment Contract 60

**Renewal and Recreation**

Planning Appeals - Changes in Legislation 60

**Grants included within Central Contingency Sum**

Reduction in Education Services Grant		400
Lead Local Flood Authorities - Grant Related Expenditure (LSSG)		216
Public Health - Transfer of 0-5 year old Services (health visitors etc.)		1,901
Government Funding to meet Cost of Service	Cr	1,901
Tackling Troubled Families Grant - Expenditure		426
Tackling Troubled Families Grant - Income	Cr	426
Transformation Challenge Award - Expenditure		344
Transformation Challenge Award - Income	Cr	344
Adoption Reform Grant - Expenditure		273
Adoption Reform Grant - Income	Cr	273
SEND Implementation Grant - Expenditure		182
SEND Implementation Grant - Income	Cr	182
Individual Electoral Registration Process - Expenditure		102
Individual Electoral Registration Process - Income	Cr	102
SEND Pathfinder SEN Reform Grant - Expenditure		71
SEND Pathfinder Grant - Income	Cr	71

**General**

Provision for Cost Pressures arising from Variables		2,000
Provision for Unallocated Inflation		1,864
Provision for Risk/Uncertainty		2,193
Provision for Risk/Uncertainty relating to Volume and Cost Pressures		1,950
Increase in Cost of Homelessness/Impact of Welfare Reforms		1,100
Changes in Parking Enforcement		1,000
Growth for Waste Services		300
Deprivation of Liberty		314
Impact of Automatic Enrolment (additional employee costs)		300
Retained Welfare Fund		450
Freedom Passes		326
Grants to Voluntary Organisations		275
Disabled Facilities Grant RCCO		232
Care Act - Revised Assessment of Costs		2,876
Care Act - Funding from Better Care Fund	Cr	750
Care Act - Government Funding	Cr	1,848
Other Provisions		216
		<u>13,534</u>

*There will be further changes to the Central Contingency to reflect allocations to individual Portfolio budgets prior to publication of the Financial Control Budget.*

## LEVEL AND USE OF RESERVES AND ROBUSTNESS OF THE 2015/16 BUDGET

### 1. Background

With the introduction of the prudential approach to capital investment, Chief Financial Officers in local authorities are required to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long-term revenue commitments. In considering the affordability of its capital plans, councils are required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. This requires clear and objective attention to the levels and application of the council's balances and reserves. The level of balances and reserves needs to be adequate to ensure that the longer term stewardship of the Council's finances remains effective and the Council maintains "sustainable" finances in the medium term. Medium term planning becomes absolutely key in recognition of the ongoing "structural" budget deficit facing the Council.

### 2. General Reserves

2.1. Bromley has estimated general reserves of £20.5 million as at 31<sup>st</sup> March 2015 as well as earmarked reserves (Section 3). Key to any financial strategy is the retention of sufficient reserves (including earmarked reserves) for the following reasons:

- (a) To provide some "contingency" reflecting the financial risks facing the Council. The scale of budget reductions and associated impact, the need to manage effectively action to reduce the longer term "budget gap" and recent government changes which include the transfer of risks from central to local government provides significant new risks for longer term planning purposes;
- (b) To provide alternative one off funding to offset the impact of any overall large overspends facing the Council;
- (c) To provide adequate resources for spend to save initiatives which, following investment, can provide real longer term financial and service benefits;
- (d) To provide support in financing the capital programme, particularly to assist in funding key initiatives;
- (e) To provide financial support (income) to the revenue budget through interest earnings, which will reduce as balances are gradually reduced;
- (f) To utilise short term monies available from any "front loading" of savings to assist in managing the key risks facing the Council and fund key initiatives preventing the further deterioration in the "sustainability" of the Council's finances;
- (g) To provide investment to seek a long term alternative to current income streams;
- (h) To provide funding (e.g. severance costs) to enable the release of longer term ongoing savings;
- (i) To set aside income available, that does not provide a permanent income stream, towards one off investment in the community for schemes that meet the Council's priorities;
- (j) To buy time to identify further savings needed whilst avoiding "knee jerk" actions to deal with future budget deficits;
- (k) To assist the council achieve as much stability as possible for both longer term service delivery and planning the moving of resources to areas of agreed priority.

- 2.2 In order to assess the adequacy of unallocated general and earmarked reserves when setting the budget, account must be taken of the strategic, operational and financial risks facing the authority. This is an important aspect of Bromley's developing approach to risk management. An "Annual Governance Statement" signed by the Chief Executive and the Leader of the Council covers, for example, the processes to fully underpin the Council's system of internal control.
- 2.3 Setting the level of reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account needs to be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements.
- 2.4 Bromley's reserves have reduced from £131m to £54m (general reserves) between 1997 and 2011. The Council had previously agreed to set aside part of these reserves towards an Invest to Save Fund and to fund the Economic Development and Investment Fund. Further details were reported to Executive in September 2011 and June 2013. The latest projected level of general reserves remaining is £20.5m. It was previously estimated that reversing the current strategy of eliminating the ongoing dependency on the use of reserves to support the revenue budget and abandoning the transfer of rolling programmes to revenue would have eliminated the Council's overall general reserves by 2016/17 which is not sustainable. Further details were reported in the Annual Capital Review reports.
- 2.5 The main reasons for reducing reserves over the previous years were:
- (a) Reserves had been utilised to provide a one off contribution to partly fund the Council's revenue budget, of between £3.1m and £4.3m per annum from 2000/01 to 2007/08, to assist in keeping the Council Tax lower;
  - (b) Utilised to partly fund the council's capital programme, particularly as future capital receipts diminish.
- 2.6 The most significant gain to balances was following the housing transfer to Broomleigh in 1992. The balances have reduced considerably since then as shown above. Opportunities to generate additional capital resources and reserves through disposal of surplus assets should continue to be vigorously pursued, however, there are unlikely to be opportunities to again generate the very substantial level of reserves held in the past.
- 2.7 Latest projections in the capital programme indicate that there will be no requirement to fund capital expenditure from revenue balances over the next three years which should enable the current level of balances to be retained. This position could change if there is significant slippage in capital receipts.
- 2.8 If the existing general reserves are released now to fund continuing service initiatives and/or significantly reduce council tax further then there would be a resultant "opportunity cost" relating to the corresponding loss in interest earnings and depletion of reserves which is not recommended by the Director of Finance, particularly at this time of financial uncertainty. Funding for any increases in service levels would only be in the short term. Retaining a significant level of reserves provides a major opportunity to fund any transformation/spend to save programmes in future years, as well as provide an ongoing source of significant revenue income to the Council.

- 2.9 Executive previously agreed that the following principles be applied to determining the use of reserves:
- (a) As a prudent working balance that a target minimum level of general reserves of £15m should be set at this stage for reserves, with higher amounts being retained for specific purposes. The Director of Finance subsequently reviewed the minimum level of general reserves and recommended a minimum sum of £20m to reflect the significant financial uncertainty facing the Council and the need to address the significant ongoing “budget gap”.
  - (b) Any support for the capital programme to be focused on areas that can generate business efficiencies and maintain and enhance the Council’s core infrastructure. The programme should be driven by the Council’s asset management plan, which in turn should be derived from the key priorities of the Council.
  - (c) Any support for the revenue budget will need to be modest and sustainable in the medium term and the impact of any withdrawal built into future financial plans. From 2008/09 Members agreed to eliminate the continuing use of reserves to support the revenue budget.
  - (d) The council has limited scope to utilise general fund reserves for capital spending in excess of the current capital programme and will need to continue to progress a programme of asset disposals. Given the substantial pressures on the revenue position of the council it would be sensible to focus the spending of the general reserves in excess of the basic level on investments to increase the efficiency of the council, provide income and reduce the cost base rather than in funding the continuation of current practices and patterns of spending.
- 2.10 Balancing the annual budget by drawing on general reserves is a legitimate short-term option. However, where reserves are to be deployed to finance recurrent expenditure this needs to be explicitly considered and the sustainability of this over the lifetime of the medium term financial plan needs to be considered.
- 2.11 In the context of Bromley’s current financial position the reserves are adequate in 2015/16 and 2016/17. However, the important issue to consider is planning the future use of the reserves in the context of the authority’s medium term financial plan and not to focus exclusively on short-term considerations.

### 3. Earmarked Reserves

3.1 As part of developing a medium term financial plan and preparing the annual budget members need to consider appropriate use of reserves for specific purposes and the levels at which these should be set. Further details on the utilisation of earmarked reserves together with general reserves are provided in section 2.1. The current specific (earmarked) reserves and their estimated uses are:

Description	Balance at 31/3/14	Estimated Net Movement	Estimated Balance at 31/3/15	Estimated Movement	Estimated Balance at 31/3/16
<b>EARMARKED BALANCES</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
LPSA/LAA Reward Grant Investment Fund	1,046	-300	746	-300	446
Technology Fund	1,801	21	1,822	25	1,847
Town Centre Improvement Fund (LABGI)	66	-	66	-66	-
Reserve for Potential Redundancy Costs	115	-18	97	-27	70
Transformation Fund	4,817	-450	4,367	-1,200	3,167
Community Fund	655	-38	617	-	617
Works to Property	100	-	100	-	100
Building Control Charging Account	68	28	96	-20	76
Government Grants (c/fwd from previous years)	2,352	-1,645	707	-707	-
Glaxo Wellcome Endowment	183	-5	178	-5	173
Public Halls Fund	8	-	8	-3	5
Investment Fund	41,193	-17,703	23,490	-20,000	3,490
Growth Fund	10,000	-250	9,750	-3,000	6,750
Invest to Save Fund	15,975	-3,565	12,410	700	13,110
Bromley Welcare	29	-	29	-29	-
One off Member Initiatives	1,162	-156	1,006	-328	678
Interest Rate Risk Reserve	1,185	-1,185	-	-	-
Infrastructure Investment Fund	2,000	-	2,000	-	2,000
Provision for Impact of Recession	1,500	-1,500	-	-	-
Commissioning Authority Programme	99	-60	39	-39	-
Health & Social Care Initiatives – Promise Programme	5,953	-	5,953	-	5,953
Key Health & Social Care Initiatives	1,700	-	1,700	-	1,700
Integration of Health & Social Care Initiatives	1,937	-500	1,437	-1,437	-
Healthy Bromley Fund	2,670	-90	2,580	-2,580	-
Winter Pressures Reserve	1,542	-	1,542	-1,542	-
Housing Strategy Trading Account	29	-	29	-20	9
Community Right to Bid & Challenge	30	17	47	-	47
Glades Refurbishment	572	-241	331	-241	90
Impact of Winter Damage – Potholes and Highways	1,000	-1,000	-	-	-
Provision for Emergency Flood Damage	100	-100	-	-	-
Refurbishment of War Memorials	25	-25	-	-	-
Cheyne Woods and Cyphers Gate	192	-24	168	-121	47
Collection Fund Surplus	-	2,964	2,964	-2,964	-
Parallel Fund	-	2,720	2,720	80	2,800
<b>Sub Total</b>	<b>100,104</b>	<b>-23,105</b>	<b>76,999</b>	<b>-33,824</b>	<b>43,175</b>
<b>PROVISIONS</b>					
Insurance Fund	2,981	-481	2,500	-	2,500
<b>OTHER</b>					
School Budget Share Funds	6,767	-1,920	4,847	-2,111	2,736
<b>Total Estimated Reserves</b>	<b>109,852</b>	<b>-25,506</b>	<b>84,346</b>	<b>-35,935</b>	<b>48,411</b>

- 3.2 The above table includes new earmarked reserves which are dependent on any final decision on council tax levels. The report includes further provision of £4,400k in 2015/16 relating to new homes bonus.
- 3.3 The report highlights the ongoing “budget gap” (see 4.4 of main report) which results in the Council, on an ongoing basis, having a “structural deficit”. To respond to this, Members have agreed over the last three years to create new earmarked reserves to support longer term investment and provide a more sustainable longer term financial position. This includes setting aside resources to support the Council’s future transformation programmes (invest to save), support acquisition of investment properties to generate sustainable income, and setting aside new homes bonus and other resources to support economic development and employment within the borough whilst generating income opportunities. These measures are important to provide sustainable solutions in the longer term.
- 3.4 A summary of other significant areas are:
- School Balances - these are unspent balances of budgets delegated to individual schools and these are legally only available to schools.
  - Insurance Reserves – self-insurance is a mechanism used by a number of local authorities including Bromley. In the absence of any other statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves or provisions.
  - Technology Fund - this represents IT budgets that have been put into a reserve in previous years to allow projects to be carried out across the boundaries of financial years and the utilisation of this will become increasingly important over the next few years.
- 3.5 In addition there is the pensions reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with those schemes’ requirements and the net change in the authority’s recognised liability under IAS19 – employee benefits, for the same period. An appropriation is made to or from the pensions reserve to ensure that the bottom line in the income and expenditure account reflects the amount required to be raised in taxation. This effectively prevents the large deficit on the pension fund needing to be made good from taxation in one year.
- 3.6 The final outcome of the actuarial valuation as at 31/3/13 was that the Council’s pension fund is 82% funded with a total deficit of £128m (including other non-council employees). Decisions on the deficit repayment period of 15 years were made at the meeting of Pensions Investment Sub Committee on 11<sup>th</sup> February 2014. The triennial actuarial valuation will impact on the budget from 2015/16 to 2016/17 with a subsequent valuation impacting from 2017/18.

## 4. **Budget Assumptions**

### 4.1 Treatment of Inflation and Interest Rates

4.1.1 Previously market assumptions about interest rates increasing have not materialised which is impacting on Income from interest on balances. Low lending rates are expected to continue over the next two years due to, for example, the continuation of “funding for lending” , Bank of England is expected to keep the base rate low, and limiting the lending period to banks to reflect cautionary advice from credit rating agencies. The Treasury Management policy was reviewed and Members agreed alternative lending options including investment in a property fund, diversified growth fund and increasing of lending limits to part nationalised banks which has led to potential additional income of £1.15m per annum. There remains a need to ensure the strategy finds the right balance between Security, Liquidity and Yield – in that order. In a recent survey Bromley achieved the second highest returns against a benchmark group of 12 local authorities. The 2015/16 Budget assumes income of £2.74m. Some local authorities are achieving returns as low as 0.25% per annum. Alternative investments relating to acquisition of properties as part of a wider investment strategy is expected to deliver additional income of £1m in 2015/16 rising to £2m per annum from 2016/17 (in addition to income of £2m per annum achieved through previous acquisitions).

4.1.2 A general allowance of 1.7% has been built into the forecast for 2016/17 and future years for contractual running expenses. This compares with current general RPIX increase of 1.7% (Dec. '14).

4.1.3 The 2015/16 Budget includes the impact of the proposed salary increase for staff announced by the Resources Portfolio Holder at the Executive meeting on 14<sup>th</sup> January 2015.

### 4.2 **Level and Timing of Capital Receipts**

4.2.1 Details of the level and timing of capital receipts are included in the “Capital Programme Monitoring Q3 2014/15 and Annual Capital Review 2015 to 2019” report elsewhere on the agenda.

### 4.3 **“Demand Led” Budgets**

4.3.1 The major demand led services that currently affect Bromley's budget are Children in Care, adults and older people social care services and homelessness. These have all been based around a detailed analysis of the current position with reasonable estimates of likely changes in activity in the next financial year. For homelessness, significant increases have been built into the budget. The net full impact of the 2014/15 overspend on social care has also been built into the Draft 2015/16 Budget.

### 4.4 **Financial Standing of the Authority**

4.4.1 Long-term Council Tax collection rates have been consistently high at around 98/99%. Other external debt collection is also high. There are plans to continue to improve the recovery of income across service areas. Any improvement will serve to improve the Council's overall financial position. There remains, however, a risk that collection rates could suffer within the current economic climate. As a debt free authority, Bromley has relatively limited exposure to interest rate movements and changes in interest earnings on external investments have been reflected in the budget based upon likely use of reserves and current interest rates.

## 4.5 **Budget and Financial Management**

4.5.1 Bromley has for many years operated multi year budget planning. There have been substantial improvements in the quality and accuracy of financial planning in recent years. The introduction of cash targets for service departments has led to greater realism in the projection and management of the volume of service activity. Overspends against the budget had been **generally contained in** overall terms in previous years. Should overspending be forecast on any service in 2015/16, then balancing the budget will require very positive action if the council is not to overspend in the current and future years.

## 4.6 **Financial Information and Reporting**

4.6.1 The arrangements for finance staff to report to the Director of Finance, in place since April 2002, have produced far greater clarity of roles and responsibilities. This has led to the production of more accurate budgets and improved the quality of budget monitoring. However the implementation of further savings to revenue budgets for 2015/16 will require even greater scrutiny than was the case in previous years and this will include the capital programme. The Council will need to continue with a rolling service review process to be able to generate savings as part of future years' budgets. Bromley was previously graded 4 ("performing strongly") in the external audit for financial management as part of the Use of Resources (this assessment has now ceased). The main issue remaining is to ensure that service managers continue to develop even greater ownership of their budgets and have more sophisticated activity and performance information on the service which they are providing. Should there be overspending in 2015/16 then compensating savings will need to be generated.

4.6.2 The Council will need to continue to adopt a corporate "One Council" approach in addressing budget pressures and identifying saving options.

## 4.7 **Virement Procedures**

4.7.1 Currently Bromley does not routinely allow the carry forward of under-spending (and overspending) by service departments as part of its year-end procedures. The Director of Finance remains satisfied however, that the current virement rules allow sufficient flexibility within the year for officers/Members to manage the budget to enable them to contain overspending within overall budgets.

## 4.8 **Risk areas**

4.8.1 Details were reported to the previous meeting of the Executive.

## 4.9 **Link with other plans/strategies**

4.9.1 A budget is a service plan/strategy expressed in financial terms and there will be linkages with other strategies and plans across the Council. The proposed budget also takes into account the outcomes of the Public Sector Equality Duty on the council's proposals (see legal considerations of main report).



#### **4.10 Insurance Fund**

4.10.1 The insurance fund is protected by the existence of external catastrophe insurance, which meets large claims. There is a stop loss of £1.4 million that prevents the council from having to meet losses in excess of this amount on liability claims in any one year. The “Insurance Fund – Annual Report 2013/14”, considered by the Resources Portfolio Holder at the meeting of the Executive and Resources PDS Committee on 19<sup>th</sup> November 2014, gives more background information.

#### **4.11 Funds and the adequacy of provisions**

4.11.1 As is discussed above, the council has both general and earmarked reserves and continues to take a prudent approach to limiting the scope of future year’s capital expenditure and other commitments. It is essential that an adequate level of reserves is maintained to reflect the impact of the future years budget gap of £20.6m in 2016/17 and £52m in 2018/19, “balance sheet” liabilities (e.g. pension fund deficit) combined with the significant financial uncertainty facing the Council in this austerity period. Bad debt provisions are reviewed each year as part of the closure of accounts and are subject to audit by the council’s external auditors.

4.11.2 The scale of the medium term “budget gap”, coupled with the significant financial uncertainty in the ongoing austerity period makes it important to maintain adequate level of reserves to ensure the Council has sufficient resilience, flexibility and stability for longer term service delivery. Apart for the need to retain reserves to address risks and uncertainty there are specific reserves to fund invest to save as well as investment in the future towards economic development within the borough whilst generating sustainable income and savings to help reduce the future years budget gap. This helps ensure that key measures of sustainable finances and stewardship in the medium term can be realised. These funds retained are adequate to meet the needs of the Council in the medium term. The level of reserves will continue to be kept under review during the Medium Term Financial Plan period.