

Decision Maker: EDUCATION BUDGET SUB-COMMITTEE

Date: Thursday 14 January 2016

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

Title: EDUCATION PORTFOLIO BUDGET 2016/17

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Chief Officer: Jane Bailey, Director of Education

Ward: Boroughwide

1. Reason for report

- 1.1 The prime purpose of this report is to consider the Portfolio Holder's Draft 2016/17 Budget which incorporates future cost pressures which are being reported to Executive on 13th January 2016. Members are requested to consider the initial draft budget and also identify any further action that might be taken to reduce cost pressures facing the Council over the next four years.
- 1.2 Executive are requesting that each PDS Committee consider the proposed initial draft budget savings and cost pressures for their Portfolio and the views of each PDS Committee be reported back to the next meeting of the Executive, prior to the Executive making recommendations to Council on 2016/17 Council Tax levels.
- 1.3 There are still outstanding issues and areas of uncertainty remaining. Any further updates will be included in the 2016/17 Council Tax report to the next meeting of the Executive.
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2. **RECOMMENDATION(S)**

The Education Budget Sub-Committee is requested to:

- (a) Consider the update on the financial forecast for 2017/18 to 2019/20;
- (b) Consider the initial draft 2016/17 Budget as a basis for setting the 2016/17 Budget;
- (c) Provide comments on the initial draft 2016/17 Budget for the February meeting of the Executive.

Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Children and Young People, Excellent Council
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Financial

1. Cost of proposal: Not Applicable
 2. Ongoing costs: Not Applicable
 3. Budget head/performance centre: Education Portfolio Budgets
 4. Total current budget for this head: £13,789k
 5. Source of funding: Draft Revenue Budget 2016/17
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Staff

1. Number of staff (current and additional): Full details will be available with the Council's 2016/17 Financial Control Budget published in March 2016
 2. If from existing staff resources, number of staff hours: Not Applicable
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Legal

1. Legal Requirement: Statutory Requirement:

The statutory duties relating to financial reporting are covered within the Local Government Act 1972; the Local Government Finance Act 1998; the Accounts and Audit Regulations 1996; the Local Government Act 2000; and the Local Government Act 2002.

2. Call-in: Not Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected):

The 2016/17 budget reflects the financial impact of the Council's strategies, service plans etc which impact on all of the Council's customers (including council tax payers) and users of the services.

Ward Councillor Views

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

3. COMMENTARY

3.1. Approach to Budgeting, Financial Context and Economic Situation which can impact on public finances

- 3.1.1. Forward financial planning and financial management is a key strength at Bromley and this has been recognised previously by our external auditors. This report continues to forecast the financial prospects for the next 4 years and includes the Government's provisional four year funding allocations. At the time of writing this report, further details on funding is awaited and it is important to note that some caution is required in considering any projections for 2017/18 to 2019/20.
- 3.1.2. The overall national debt stands at £1.6 trillion. The 2015 Spending Review and Autumn Statement identified that public sector net borrowing is expected to be £73.5bn this year which is planned to move to a surplus of £10.1bn from 2019/20. There remains positive news on the economy and since 2010, no G7 economy has growth faster than Britain. However, the fiscal squeeze will continue and with ongoing protection of health, overseas aid, education and recently police and other security services, the disproportionate cuts in direct funding to local government will continue over the four year spending review period. The most significant issue that will impact on local government funding from central government are the plans relating to DCLG Resource Departmental Expenditure Limits (RDEL). The reductions compared with the previous year are -16.5% in 2016/17, -22.9% in 2017/18, -17.6% in 2018/19, -11.5% in 2019/20. This results in a real reduction including the impact of inflation of 56%. This translates to a reduction in the Council's Settlement Funding Assessment of 48.5% by 2019/20 compared with the England average of 31.8%. In real terms the reduction equates to 52.2%.
- 3.1.3. Although there are significant funding cuts facing local government, the Chancellor repeated the aims of devolution, as part of the 2015 Spending Review and Autumn Statement, which includes transforming 'local government, enabling it to be self-sufficient by the end of Parliament'. The Government views the new flexibilities such as the future growth forecasts from business rates, to be fully devolved to local government by 2019/20, scope to raise a 2% rise in council tax (adult social care precept) and the ongoing ability to increase council tax as methods which can significantly mitigate against the impact of grant reductions.
- 3.1.4. The Budget Strategy has to be set within the context of a reducing resource base, with Government funding reductions continuing until 2020 – the on-going need to reduce the size and shape of the organisation to secure priority outcomes within the resources available. There is also a need to build in flexibility in identifying options to bridge the budget gap as the gap could increase further. The overall updated strategy has to be set in the context of the national state of public finances, with austerity continuing given the level of public sector debt, and the high expectation from Government that services should be reformed and redesigned with devolution contributing to the transformation of local government. There is also an on-going need to consider "front loading" savings to ensure difficult decisions are taken early in the budgetary cycle, to provide some investment in specific priorities, to fund transformation and to support invest to save opportunities which provide a more sustainable financial position in the longer term. Any decisions will need to consider the finalisation of the 2016/17 Budget as well as the longer time frame where it is now clear that the continuation of the period of austerity up to 2020 remains.
- 3.1.5. Bromley has the lowest settlement funding per head of population in the whole of London. Despite this, Bromley has retained the lowest council tax in outer London (other low grant funded authorities tend to have higher council tax levels). This has been achieved by having the lowest cost per head of population in outer London. Despite being a low cost authority, Bromley has achieved general savings of over £60m since 2011/12 but it becomes more challenging to achieve further savings with a low cost base.

3.1.6. One of the key issues in future year budgets will be the balance between spending, Council Tax levels, charges and service reductions in an organisation starting from a low spending base. It is important to recognise that a lower cost base reduces the scope to identify efficiency savings compared with a higher cost organisation. Any decisions will need to take into account the longer term impact on the Council's financial position – financial sustainability will be key in order to protect key services to Bromley residents.

3.2. Changes that could impact on longer term financial projections

3.2.1. The 2015/16 Council Tax report reported to Executive in February 2015 identified a significant “budget gap” over the four year financial planning period. The forecast was updated to inform the public meetings held in November/December 2015. Some key changes are summarised below:

3.2.2. Following a newly elected national government, the Chancellor's Summer Budget 2015 introduced a new national Living Wage with significant cost implications to the Council over the next few years.

3.2.3. The most recent financial monitoring position was reported to Executive on 2nd December 2015. The full year impact of savings in social care, changes in grant funding for Adult Education and the impact of in-year Public Health funding reductions, and other variations, including, for example, the future containment of costs within Portfolio Budgets have been reflected in the draft 2016/17 Budget. Directors continue to identify options to manage these other cost pressures.

3.2.4. The Council's four year funding settlement, based on information to date, will result in a net loss of grant funding, including Public Health funding, of £14.6m per annum in 2016/17 rising to £32.4m per annum by 2019/20. This includes an estimated loss of funding of £0.5m per annum for various grant allocations not yet announced and an estimate of the impact of Public Health funding reductions.

3.2.5. Given the scale of savings identified and any inherent risks, the need for longer term financial planning, the significant changes that may follow with a new Government relating to new burdens (there were many changes introduced by the previous coalition Government that resulted in net additional costs for the Council), effect of ongoing population increases and the potential impact of other public agencies identifying savings which impact on the Council's costs, a prudent approach has been adopted in considering the Central Contingency Sum required to mitigate against these risks. If the monies are not required during the year the policy of using these resources, in general, for investment to generate income/savings and provide a more sustainable financial position should continue. To illustrate the benefit of the investment approach the Council has budgeted income totalling £12.9m from a combination of treasury management income and rents from investment properties. Without this income, equivalent service reductions may be required. Investment in economic growth (Growth Fund) will also be key to generate additional business rate income.

3.2.6. After allowing for the saving proposals in the Council's Draft 2016/17 Budget report to Executive on 13th January 2016, there remains a significant budget gap in future years that will need to be addressed.

3.3. Latest Financial Forecast

3.3.1. The report to Executive in January 2016 identified a budget gap rising to over £26m per annum by 2019/20 as shown in the table below. The budget gap from 2017/18 rises steeply as the expected loss in Government funding is expected to increase sharply during that period.

Variations Compared with 2015/16 Budget

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Cost Pressures				
Inflation	2.6	7.3	11.9	16.6
Grant Loss	14.6	24.7	30.6	36.4
Impact of Chancellors Summer Budget on future costs e.g. further changes on welfare reform, new Living Wage etc.	4.3	8.0	10.8	13.5
Real Changes detailed in Appendix 5 (Executive report)	0.9	2.6	5.0	6.2
Total Additional Costs	22.4	42.6	58.3	72.7
Income/ savings				
Saving proposals detailed in Appendix 6 (Executive report)	-15.1	-18.2	-19.1	-19.2
Full year effect of savings agreed as part of 2015/16 Budget	-2.9	-2.9	-2.9	-2.9
Acquisition of residential properties to accommodate homeless families and “gifting” of scheme to pension fund	-0.5	-3.2	-4.1	-4.6
Reduction in Council’s Central Contingency Sum	-1.8	-1.8	-1.8	-1.8
Impact of revised Treasury Management Strategy	-0.6	-0.6	-0.6	-0.6
Addt. Income from Business Rate Share	-0.2	-0.2	-0.2	-0.2
Increase in property numbers (council tax base)	-0.7	-0.7	-0.7	-0.7
Total income/ savings	-21.8	-27.6	-29.4	-30.0
Other Proposed Changes				
New Homes Bonus	-7.3	-7.3	-3.3	-2.5
New Homes Bonus – contribution to Investment Fund	7.3	7.3	3.3	2.5
Collection Fund Surplus (2014/15)	-4.9	0.0	0.0	0.0
Collection fund surplus set aside as one off support towards meeting funding shortfall in 2018/19	4.9	0.0	-4.9	0.0
Fall out of 2013/14 collection fund surplus to support 2015/16 Budget	5.3	5.3	5.3	5.3
	5.3	5.3	0.4	5.3
Impact of 3.99% increase in Council tax (Including adult social care precept)	-5.2	-10.5	-15.9	-21.3
Remaining “Budget Gap”	0.7	9.8	13.4	26.7

3.3.2. The above table shows, for illustrative purposes the impact of a council tax increase of 3.99% in 2016/17 (including adult social care precept). Each 1% council tax increase generates on-going annual income of £1.3m.

3.3.3. The Council has to continue to plan for a very different future, i.e. several years of strong financial restraint. It is important to recognise that, given the current ongoing period of austerity, the downside risks remain significant and that the budget gap in future years could widen substantially.

3.4. Education Portfolio Growth Pressures & Real Changes

3.4.1. No additional growth pressures have been identified at this stage in Education Portfolio. However, additional allocations have been made in the budget relating to the full year effect of the supplementary estimate for Adult Education (£382k), the reduction in Education Services Grant (£400k), and the increase in National Insurance contributions (£119k).

- 3.4.2. There are also savings for the 2016/17 budget that were identified as part of the 2015/16 budget process; Bromley Youth Music Trust (£76k) and Early Years (£30k).
- 3.4.3. Details of all the variations from the 2015/16 budget are included in Appendices 2 and 3, along with the Draft Budget Summary in Appendix 1, and the Subjective Summary in Appendix 4.
- 3.4.4. The Spending Review and Autumn Statement included the following changes that will impact on the Education budget in future years:
- Schools funding will be protected in real terms over the spending review period;
 - The Government plan to make savings of around £600m from Education Services Grant and supporting schools to realise efficiencies – effectively this will be a cut in Education Services Grant;
 - A new national funding formula will be introduced from 2017/18;
 - Funding for core adult skills will be cash protected;
 - £23bn of capital investment for schools;
 - Funding for universal free school meals will continue.

3.5. The Schools Budget

- 3.5.1. Since 2003/04, the Council has received funding for the ‘Schools Budget’ element of Education services through a ring fenced grant, more recently through the Dedicated Schools Grant (DSG).
- 3.5.2. As a precursor to the introduction of the National Funding Formula which will be implemented for 2017/18, as announced in the Chancellor’s spending review statement, DfE made changes to the DSG funding allocations for 2015/16 as part of the Fairer Funding Reforms. As a result, Bromley received an additional £19.5m schools block funding reflecting the low levels of funding in previous years.
- 3.5.3. The per-pupil funding for 2016/17 has been maintained at the same level, and an additional £562k has been allocated to the high needs block, resulting in a current projected allocation of £251.4m for 2016/17. Of this amount, £165.9m is recouped by the EFA to fund academies directly so the Council will receive £85.5m to fund the remaining maintained schools, early years funding, SEN support and placements, and other central services.
- 3.5.4. The DSG continues to be ring-fenced for funding the provision of Education, with no material changes to the conditions of use. As a result, the vast majority of this has to be passed directly to maintained schools and academies, and means that there continues to be minimal scope to redirect DSG budget to other services.
- 3.5.5. In previous years the Portfolio Holder has agreed a package of funding to set the Schools budget following consultation with Schools Forum, Headteachers and Governors. The Executive is asked to agree that this process should take place again for 2016/17 at its meeting on 13th January 2016.
- 3.5.6. The initial allocation of DSG is considered in the Dedicated Schools Grant 2016/17 report elsewhere on the agenda, and it is anticipated that a decision on the final allocation will be requested at the Education PDS Committee meeting on 19th January 2016.

3.6. Comments from the Director of Education

- 3.6.1. The education department continues to deliver effective services at a time when the landscape is an evolving one and presenting considerable financial challenge.

3.6.2. The SEND reforms have brought additional funding to support change but the extension of education, health and care plans through to age 25 has yet to work its way through the system and it is anticipated that this will have associated additional financial burdens for both the DSG high needs block and RSG in the case of SEN transport.

3.6.3. The funding for the education capital programme remains uncertain and there is concern that the increased pressure to create bulge classes will create further DSG pressures.

3.6.4. In terms of Adult Education the proposed restructure, if agreed, will move the service closer to meeting its costs but we must be mindful of possible future further reductions to grant funding.

4. POLICY IMPLICATIONS

4.1. The Council's key priorities are included within the Council's "Building a Better Bromley" statement and include:

- An Excellent Council
- A Quality Environment
- Regeneration
- Vibrant Thriving Town Centres
- Supporting our Children and Young People
- Supporting Independence
- Safe Bromley
- Healthy Bromley

4.2. "The "Building a Better Bromley" objective of being an Excellent Council refers to the Council's intention to provide efficient services and to have a financial strategy that focuses on stewardship and sustainability. Delivering Value for Money is one of the Corporate Operating Principles supporting Building a Better Bromley.

5. FINANCIAL IMPLICATIONS

5.1. The financial implications are contained within the overall report.

6. LEGAL IMPLICATIONS

6.1. 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 31 A and 31 B 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.

7. PERSONNEL IMPLICATIONS

7.1. Staff, departmental and 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.

Background Documents: (Access via Contact Officer)	Draft 2016/17 Budget and Update on Council's Financial Strategy 2017/18 to 2019/20, Executive, 13 th January 2016; Council Tax Support/Reduction 2016/17, Executive, 2nd December 2015;
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	<p>Budget Monitoring 2015/16, Executive, 2nd December 2015; Provisional Final Accounts 2014/15, Executive, 10th June 2015; 2015/16 Council Tax, Executive 11th February 2015; Draft 2015/16 Budget and Update on Council's Financial Strategy 2016/17 to 2018/19, Executive, 14th January 2015.</p>
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