

Decision Maker: **Executive**

Date: **10<sup>th</sup> February 2016**

Decision Type: Non-Urgent Executive Key

**TITLE: 2016/17 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 2016/17 revenue budget and seeks recommendations to the Council of the level of the Bromley element of the 2016/17 Council Tax. Confirmation of the final GLA precept will be reported to the Council meeting on 22nd February 2016. 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 2016/17 but to have measures in place to deal with the medium term financial position (2017/18 to 2019/20).
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## 2. RECOMMENDATIONS

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

- (a) Approves the schools budget of £85.9m which matches the estimated level of Dedicated Schools Grant (DSG), after academy recoupment;
- (b) Approves the draft revenue budgets (as in Appendix 2) for 2016/17;
- (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 13<sup>th</sup> January 2016;
- (d) Approves a contingency sum of £15.3m (see section 5);

- (e) Approves the following provisions for levies for inclusion in the budget for 2016/17:

	£'000
London Pension Fund Authority *	499
London Boroughs Grant Committee	320
Environment Agency (Flood defence etc.) *	248
Lee Valley Regional Park *	395
<b>Total</b>	<b>1,462</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 2016/17 to be recommended to the Council, including a general increase and the adult social care precept, 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 15.9);
- (j) Executive are requested to consider whether it is minded to accept the four year funding offer (see Section 16);
- (k) Agrees that the Director of Finance be authorised to report any further changes directly to Council on 22nd February 2016.

## 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 £136m Draft 2016/17 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 2016/17 Financial Control Budget to be published in March 2016
  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 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 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 21st July 2015 which is available on “One Bromley” which provides some detailed financial context.
- 3.2 The “Draft 2016/17 Budget and Update on the Council’s Financial Strategy 2017/18 to 2019/20” was reported to the Executive on 13<sup>th</sup> January 2016. Key matters reflected in the report included:

(Please note appendices and sections shown below refer to the report to the meeting of the Executive on 13<sup>th</sup> January 2016)

- (a) Approach to Budgeting, Financial Context and Economic Situation which can impact on Public Finances (Section 3 and Appendix 1);
- (b) Changes since the 2015/16 Budget that impact on the Financial Forecast (Section 4);
- (c) Council Tax Levels, Government Funding and Spend Levels (Appendix 2);
- (d) Spending Review and Autumn Statement 2015 and Provisional 2016/17 Local Government Financial Settlement (Appendix 3);
- (e) Latest Financial Forecast including real changes and saving proposals (Section 6 and Appendices 4-6)
- (f) Detailed Draft 2016/17 Budget (Section 7 and Appendix 7);
- (g) Options being undertaken with a “One Council” approach (Section 8 of the report);
- (h) Identifying further savings (Section 9);
- (i) Future Local Authority Landscape (Section 10);
- (j) Issues for Future Years (Section 15);
- (k) Consultation (Section 18 and Appendix 8);
- (l) Risk Areas within each Portfolio (Section 19 and Appendix 9)

All of the above should be considered with this report as part of finalising the 2016/17 Budget and council tax levels.

### **4. 2016/17 DRAFT BUDGET AND CHANGES SINCE LAST MEETING OF THE 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 Draft 2016/17 Budget reported to the last meeting of the Executive included a provision for further government grant losses of £0.5m to reflect uncertainty on awaited grant allocations for Public Health, Independent Living Fund, Housing Benefit Administration and various other grants. At the time of writing this report some of these grant allocations have not yet been announced. A verbal update will be provided at the meeting;
  - (b) The Provisional 2016/17 Local Government Financial Settlement was announced on 17<sup>th</sup> December 2015 and the final outcome following the consultation period is expected to be announced by the second week of February;
  - (c) Bromley CCG have received their Better Care Fund allocations and an inflation uplift in funding has resulted in an increase in the Council’s element of the income by £431k which is reflected in the updated financial projections;

- (d) Latest information available indicates that the Council's increase in income from the business rate share will improve from £200k to £300k in 2016/17;
- (e) The Draft 2016/17 Budget includes an increase in the Council's Investment Fund with monies available from New Homes Bonus in 2016/17. The Government have confirmed that the previous year's top-slice of funding will not apply in 2016/17 and that, despite consultation proposals to reduce funding in future years, the 2016/17 allocation of funding will not be affected. The use of these monies (£7.4m) would enable the generation of additional investment income of £185k in 2016/17 with further income of £165k in future years.
- (f) The DCLG have provided provisional estimates for 2016/17 New Homes Bonus which equates to £7,402k compared with the original estimate of £7,300k assumed in the previous report to the Executive. The additional monies would result in a corresponding increase in the contribution to the Investment Fund.

4.2 A summary analysis of key variations in the draft 2016/17 Budget, compared with the 2015/16 Budget, including further saving options required to balance the budget for 2016/17 and changes since the report to the meeting of the Executive on 13<sup>th</sup> January 2016 (see 4.1), are shown in Appendix 1 and summarised below.

Variations Compared with 2015/16 Budget	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
<b>Cost Pressures</b>				
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 (reported previously)	0.9	2.6	5.0	6.2
Total Additional Costs	22.4	42.6	58.3	72.7
<b>Income/ savings</b>				
Saving proposals (reported previously and see 4.1)	-15.7	-19.0	-19.9	-20.0
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	-0.3	-0.3	-0.3	-0.3
Increase in property numbers (council tax base)	-0.7	-0.7	-0.7	-0.7
Total income/ savings	-22.5	-28.5	-30.3	-30.9
<b>Other Proposed Changes</b>				
New Homes Bonus	-7.4	-6.5	-3.3	-2.5
New Homes Bonus – contribution to Investment Fund	7.4	6.5	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 of 2%)	-5.2	-10.5	-15.9	-21.3
<b>Remaining "Budget Gap"</b>	<b>0.0</b>	<b>8.9</b>	<b>12.5</b>	<b>25.8</b>

*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.*

- 4.3 These variations are subject to any final decision on Council Tax levels. Appendix 2 derives an illustrative 'Bromley element' Council Tax of £1,071.27 (1.99% general increase plus 2% adult social care precept) and Appendix 3 includes the Draft 2016/17 Central Contingency Sum. Appendix 2 is based on draft portfolio 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 2016/17 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 £8.9m in 2017/18 rising to £25.8m per annum in 2019/20 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 the Government's provisional allocations of ongoing reductions in Government funding in 2017/18, 2018/19 and 2019/20. Any projections over the next four years need to be treated with caution as there remains significant uncertainty relating to any future changes arising from new welfare reforms, the medium term impact of the Care Act and future new burdens. The full Devolution of Business Rates by end of 2019/20 will create new risks for the Council. 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 22nd 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:

	2016/17 £'000	2019/20 £'000
Continuation of conversion of maintained schools remaining to academies reducing net funding to the Council	921	921
Homelessness/impact of welfare reforms	300	2,400
Removal of contracted out national insurance from 2016/17	982	982
Impact of changes to Adult Education (mainly reduction in grant funding)	382	382
Waste collection and disposal	87	1,039
Cost of freedom passes (mainly usage)	678	1,200
Provision for future years cost pressure not included above		1,500
Changes agreed by Executive in December 2015 which mitigate against impact of Deregulation Act	-1,000	-1,000
Provision for inflation in 2016/17 Budget no longer required	-1,300	-1,300
Essential Users Car Allowances	-150	-300
Other growth pressures (net)	-28	346
Total	872	6,170

- 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 2016/17 were reported to the previous meeting of the Executive and there are additional changes identified in section 4.1 of this report (summarised below). The savings reported previously to Executive were reported through PDS Committees and their comments will be circulated separately prior to the meeting of the Executive.

	2016/17 £'000	2017/18 £'000
Reduction in staffing and further efficiencies	940	940
Changes in service delivery	6,510	9,120
Contract Efficiencies	2,363	2,811
Additional income	4,504	4,719
Invest to Save/other investment	1,303	1,303
Other Savings	70	70
<b>Total</b>	<b>15,690</b>	<b>18,963</b>

## 5. DRAFT 2016/17 CENTRAL CONTINGENCY SUM

- 5.1 Details of the 2016/17 Draft Contingency Sum of £15,298k 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 2016/17 Budget.

## 6. EARMARKED RESERVES

- 6.1 At the meeting of the Executive on 13<sup>th</sup> January 2016, Members agreed as part of the draft 2016/17 Budget the setting aside of the 2016/17 New Homes Bonus as a contribution to the earmarked reserve for the Investment Fund. This equates to £7.4m, based on latest estimates.
- 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 Growth Fund 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 £26m per annum by 2019/20.

- 6.5 The Council has general reserves remaining of £20m as at 31/3/2015. A full breakdown of reserves including earmarked reserves is detailed in Appendix 4.
- 6.7 If the existing general reserves are released now to fund service initiatives, delay savings or reduce council tax there would be a resultant “opportunity cost” relating to a corresponding loss in interest earnings/investment opportunities and further acceleration of the anticipated exhaustion of reserves which is not recommended. Any increase in service levels or initial protection would only be very short term. Reserves can only be used as a one-off contribution to revenue spending and would not provide a sustainable solution to maintaining local government services.

## **7. 2015/16 FINANCIAL MONITORING**

- 7.1 The most recent financial monitoring position was reported to Executive on 2<sup>nd</sup> 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.

## **8. THE SCHOOLS BUDGET**

- 8.1 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, Department for Education made changes to the Dedicated Schools Grant 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.
- 8.2 The latest funding for the Schools’ Budget was reported to the previous meeting of the Executive which included an additional £562k to be added to the high needs for 2016/17, but no increase in the per-pupil funding rate.
- 8.3 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.
- 8.4 The ring-fencing of this grant results in a continuation of minimal scope to redirect resources from the Schools Budget to other services.
- 8.5 The use of the DSG is subject to consultation with Members, Governors, Head Teachers, the Schools Forum and other interested parties. The Education Portfolio Holder made a final decision, following this consultation, at the meeting of the Education Budget Sub-Committee on 14<sup>th</sup> January 2016.

## **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 22nd February 2016 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 Council has a non-recurring collection fund surplus of £4.9m reflected in the 2014/15 Provisional Final Accounts report to Executive in June 2015. As part of medium term financial planning, the financial forecast assumes that the surplus will be used towards reducing the Council's "budget gap" in 2018/19.
- 10.3 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 2016/17 Draft Budget has been issued for consultation and includes proposals for a reduction of 6.4% in existing GLA precept levels for 2016/17. The final GLA precept for 2016/17 is expected to be announced after the Assembly has considered the Mayor's draft consolidated budget on 22nd February 2016.

## 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 2016 was £20.4m as shown in the "Budget Monitoring 2015/16" report to the December 2015 meeting of Executive, is provided below:

	2015/16 Projected Outturn £Million
General Fund Balance as at 1 <sup>st</sup> April 2015	20.0
Impact of net projected underspends reflected in the 2015/16 budget monitoring report	+2.1
Adjustment to Balances: Carry forwards (funded from underspends in 2014/15)	-1.7
Estimated General Fund Balance at 31 <sup>st</sup> March 2016 (end of year)	20.4

- 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 2015/16 & Annual Capital Review 2016 to 2020" 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. However, given the ongoing financial constraints and opportunities to reduce costs in the medium term, it may be necessary to reconsider the approach. The Executive Director of Environment and Community Services will be submitting a report to a future meeting considering upfront funding of footway and carriageway planned maintenance.

- 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 2016/17 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 13<sup>th</sup> January 2016, requested that the "Draft 2016/17 Budget and Update on Council's Financial Strategy 2017/18 to 2019/20" 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 22nd February 2016 where the 2016/17 Budget and Council Tax will be agreed.
- 13.2 Two separate resident association meetings and a wider public meetings relating to "Bromley Council Budget 2016-17" in November/December 2015 with a web survey seeking the public's views online (with a closing date of 8th December 2015) 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 were taken by the Education Portfolio Holder on 14<sup>th</sup> January 2016.
- 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.
- 13.5 Chief Officers' indicative saving options were referred to the Executive in January and, where appropriate, the consultation process is being undertaken and the outcome to date will be reported to a future meeting.

### **14. POSITION BY DEPARTMENT – KEY ISSUES/RISKS**

- 14.1 There remain risks arising from the scale of budget savings required to address the budget gap as well as the cost pressures arising from new burdens and the impact of Government policy changes including welfare reforms and the new Living Wage. Action will need to be taken to contain, where possible these cost pressures, managing the implementation of savings or seeking alternative savings where required.
- 14.2 Details of the potential risks which will be faced in future years, as part of finalising the 2016/17 Budget, were reported to the previous meeting of the Executive. The level of balances held and provisions set aside in the central contingency provide significant safeguards against any adverse financial pressures.

## 15. COUNCIL TAX LEVEL 2016/17

- 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 £1,030.14 in 2015/16 and a further sum of £295.00 for the GLA precept (providing a total Band D equivalent Council Tax of £1,325.14).
- 15.2 For 2016/17 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 £1.3m.
- 15.3 As part of the Provisional 2016/17 Local Government Financial Settlement, council tax freeze grant is no longer available from 2016/17.
- 15.4 As part of the Localism Act, any council tax increase of 2% or above in 2016/17 (2% per annum for 2013/14 to 2015/16) will trigger an automatic referendum 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 estimated to be £400k.
- 15.5 Councils are able to levy the adult social care precept on top of the existing freedom to raise council tax by up to 2% without holding a referendum.
- 15.6 If the Council chose to agree a Bromley element 3.99% council tax increase, including the social care precept, and the GLA precept reduction was 6.4% there would be an overall combined council tax increase of around 1.7%.
- 15.7 The table below identifies the changes required to the draft 2016/17 Budget to achieve different levels of increases in the Bromley element of the council tax. An increase of 3.99%, including 2% for the adult social care precept, has been assumed in the 2016/17 Draft Budget at this stage.

Increases in Council Tax Levels

Bromley Element % Increase in 2016/17 including adult social care precept	Additional Income 2016/17 £'m
Freeze	NIL
1.0	1.3
2.0	2.6
3.0	3.9
3.99*	5.2
5.0 ^	6.5

\*Assumed in draft 2016/17 Budget. Adult social care precept of 2% equates to additional income of £2.6m per annum. ^ Would be subject to a council tax referendum

- 15.8 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 2016/17 but also the longer term impact over the four year forecast period.
- 15.9 The Council Tax Referendum Principles are expected to be confirmed as part of the final Local Government Finance Settlement 2016/17 expected by 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.

- 15.10 In 2015/16 Bromley has the lowest settlement funding per head of population in the whole of London (2<sup>nd</sup> lowest in 2016/17). 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. 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 2016/17 Budget and Update on Council's Financial Strategy 2017/18 to 2019/20" report to the meeting of the Executive on 13<sup>th</sup> January 2016.
- 15.11 Members are asked to consider the impact of the latest draft budget on the level of Council Tax for 2016/17, having regard to all the above factors, including the Director of Finance comments in Appendix 4.

## **16. FUNDING SETTLEMENT AND FIXED FUNDING OFFER**

- 16.1 Details of the Provisional Local Government Finance Settlement were reported to the previous meeting of the Executive and the final settlement is expected by mid- February. The Leader has met with Greg Clark, Secretary of State and the local MPs to express concern about the settlement. The Leader and the Director of Finance have separately written to the Government as part of the response to the consultation. A significant number of points have been raised and the concerns relate to the higher than average reduction in funding, "lock in" of previous low funding levels, no transitional protection, no recognition that lower cost authorities such as Bromley have less scope to achieve further savings and no account is taken of London related additional cost pressures (e.g. homelessness and increasing population). The changes also result in a reduction in the future allocation of Better Care Fund which the Council proposes should continue to be distributed using the adult social care formula.
- 16.2 The Council has received provisional funding allocations for a four year period 2016/17 to 2019/20 which is welcomed. The Government has stated that any Council accepting this four year funding "offer" will have to publish an efficiency plan. Details of the specific requirements of the efficiency plan are awaited.
- 16.3 The Government have qualified the "offer" by stating that the final grant determination in future years will still be subject to future changes arising from unforeseen events, business rate multiplier changes, impact of transfer of functions and mergers. The settlement does not address Members concerns about the low base level/ starting point grant funding to Bromley which impacts on funding over the next four years and means that detailed consideration will need to be given about whether to sign up to the "offer". However, recent press reports have indicated that Greg Clark, Secretary of State, has advised that it represents a minimum funding offer and it is also important to note that there may be downside risks to the Council in not signing up, particularly if further austerity measures are introduced by the Government. Executive are requested to consider whether it is minded to accept the four year funding offer.

## **17. MEDIUM TERM FINANCIAL PLANNING**

- 17.1 The detailed approach of the Council towards budgeting over the medium to longer term was reported to Executive on 13<sup>th</sup> January 2016 and the draft 2016/17 Budget and future years forecasts reflect the impact of this approach.

- 17.2 The Council will receive a reduction in the Settlement Funding Assessment of 48.5% per annum by 2019/20, which compares with the England average of 31.8% (real terms reduction of 52.2%). Although there are significant cuts facing local government, the Chancellor repeated the aims of devolution as part of the Spending Review and Autumn Statement 2015, 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.
- 17.3 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. In addition the Council will need to consider future council tax increases to mitigate against higher than average government funding reductions and the need to meet new burdens. 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.
- 17.4 The report includes proposals to retain 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.
- 17.5 For financial planning purposes, the financial forecast assumes a council tax increase of 3.99% per annum over the next four years to compensate for the higher proportion of funding reductions, to reduce the level of social care savings and provide funding to meet increasing social care costs, demographic cost pressures and to meet the ongoing “budget gap”.
- 17.6 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

£13.0m (latest position) 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.

- 17.7 The council has taken a prudent approach to identify and deliver front loading efficiency savings. This, together with being debt free and having healthy reserves places the council in a stronger 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.

## **18. POLICY IMPLICATIONS**

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

- A Quality Environment
- Regeneration
- Vibrant Thriving Town Centres
- Supporting our Children and Young People
- Supporting Independence
- Safer Bromley
- Healthy Bromley

## **19. PERSONNEL IMPLICATIONS**

- 19.1 Staff, departmental and trade union representatives are being 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

## **20. LEGAL IMPLICATIONS**

- 20.1 The Council is required to fix its Council Tax by the 11th March in any year. The Local Authorities (Standing Orders) (England) Regulations 2001 and the Local Authorities (Functions and Responsibilities) Regulations 2000 (as amended) 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 31A and 31B to the Local Government Finance Act 1992 (as amended by sections 73-79 of the Localism Act 2011) set out the way in which a billing authority calculates its budget requirement and basic amount of Council Tax. The main change being replacing the need to calculate a budget requirement for a financial year with the obligation to calculate a Council tax requirement. These calculations are required to be presented to and be subject to formal resolution by the Council
- 20.2 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 Section 15 of the Report). This replaced the previous power of the Secretary of State to "cap" local Authority budgets.

- 20.3 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.
- 20.4 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.
- 20.5 The making of these budget decisions is a statutory responsibility for all Members. Section 106 of the Finance act 1992 provides that Members who are present and who are 2 months or more in arrears with their Council Tax must declare this to this meeting and the budget meeting and not vote on budget recommendations.
- 20.6 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.
- 20.7 In setting the proposed budget, due regard has been necessary to relevant considerations including equality, human rights, proportionality, reasonableness, need to maintain our statutory obligations, legitimate expectation and the Council's priorities 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' which includes age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 20.8 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' including the potential for cumulative impact on some groups from separate work streams arising from this budget, 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. Where any proposals are found to have a disproportionate impact on a particular group, the Council will consider what actions can be taken to avoid or mitigate the impact.
- 20.9 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>Capital Programme Monitoring Q3 2015/16 and Annual Capital Review 2016 to 2020, Executive, 10<sup>th</sup> February 2016;  Gateway review 0,1 &amp; 2 approval of 2016/17 operational building maintenance budgets, planned maintenance programme and preferred procurement option, Executive, 10<sup>th</sup> February 2016  2016-17 Dedicated Schools Grant, Education Budget Sub-Committee, 14<sup>th</sup> January 2016  Draft 2016/17 Budget and Update on Council's Financial Strategy 2017/18 to 2019/20, Executive, 13<sup>th</sup> January 2016  Budget Monitoring 2015/16, Executive, 2<sup>nd</sup> December 2015;  Provisional Final Accounts 2014/15, Executive 10<sup>th</sup> June 2015;</p>
<b>Financial Considerations</b>	Covered within overall report



## FINANCIAL FORECAST 2016/17 TO 2019/20

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
<b>Bromley's Budget Requirement in 2015/16 (before funding from Formula Grant)</b>	196,281	196,281	196,281	196,281	196,281
Formula Grant and Business Rate Share	-67,380	-67,380	-67,380	-67,380	-67,380
	128,901	128,901	128,901	128,901	128,901
Increased costs (1.2% per annum rising to 2% from 2018/19)		2,632	7,363	11,991	16,614
Net reduction in core funding (includes estimates of the impact of Care Act Funding and other core grants)		13,348	23,048	28,548	33,948
Impact of revised Treasury Management Strategy - Interest on Balances		-600	-600	-600	-600
Potential impact of Living Wage announced in Chancellors Summer Budget 2015 e.g. further changes on welfare reform, new living wage etc.		4,250	8,000	10,750	13,500
Increase in cost of homelessness to reflect cuts in Welfare spending announced in Chancellor's Provision in Council's Central Contingency sum not required		-1,848	-1,848	-1,848	-1,848
Increase in council tax base		-670	-670	-670	-670
Additional income from business rate share to reflect new developments in borough		-300	-300	-300	-300
Reductions in Government Funding - Public Health (provisional estimate)		1,266	1,641	2,051	2,461
		2,098	6,223	9,383	12,543
Real Changes and other Variations (see section 4.7)					
Education, Care and Health Services (mainly homelessness)		1,603	2,303	3,003	3,703
Environment		106	600	1,103	1,612
Renewal and Recreation		22	44	67	90
Other (mainly council wide)		-859	-871	-133	-735
Provision for future years cost pressures not included above		0	500	1,000	1,500
Sub total - real changes and variations		872	2,576	5,040	6,170
<i>New Homes Bonus</i>		-7,402	-6,500	-3,250	-2,500
<i>Contribution to Investment Fund</i>		7,402	6,500	3,250	2,500
		0	0	0	0
Collection Fund Surplus 2014/15		-4,912	0	0	0
Fall out of previous years collection fund surplus used to support 2015/16 Budget		5,264	5,264	5,264	5,264
Collection Fund surplus set aside as one off support towards meeting the funding shortfall in 2018/19		4,912	0	-4,912	0
Remaining Sum to be met from Council Tax/Budget Options		153,115	173,375	184,215	203,440
Full year effect of savings agreed as part of 2015/16 Budget		-2,870	-2,915	-2,915	-2,915
Acquisition of residential properties to accommodate the homeless (Executive 2nd December 2015)		-457	-1,450	-2,408	-2,890
"Gifting" of residential properties investment to pension fund (Executive 2nd December 2015)		0	-1,700	-1,700	-1,700
Proposed Savings (see section 4.9)		-15,690	-18,963	-19,848	-19,941
		-19,017	-25,028	-26,871	-27,446
Increase in council tax (assume 1.99% per annum) *		-2,592	-5,235	-7,931	-10,523
2015/16 Council Tax Income	-128,901	-128,901	-128,901	-128,901	-128,901
<b>Remaining "Budget Gap"</b>	0	2,605	14,211	20,512	36,570
Impact of Adult Social Care Precept (assume 2% per annum) *		-2,605	-5,262	-7,972	-10,736
<b>Remaining "Budget Gap"</b>		0	8,949	12,540	25,834

\* Included for illustrative purposes. Any decision on council tax and adult social care precept levels will be part of the annual council tax setting meeting.

## SUMMARY OF DRAFT 2016/17 REVENUE BUDGET - PORTFOLIO

2015/16 Final Budget £'000	Portfolio/Item	2016/17 Draft Budget £'000	2015/16 Band "D" Equivalent £
102,680	Education	92,166	727.69
Cr 97,556	Less costs funded through Dedicated Schools Grant	Cr 85,879	Cr 678.05
5,124	Sub total	6,287	49.64
102,794	Care Services	94,571	746.68
32,095	Environment	31,271	246.90
2,120	Public Protection and Safety	1,959	15.47
9,214	Renewal and Recreation	8,952	70.68
30,327	Resources	28,869	227.93
7,542	Non Distributed Costs & Corporate & Democratic Core	7,579	59.84
189,216	Total Controllable Budgets	179,488	1,417.14
20,980	Total Non Controllable Budgets	11,521	90.96
Cr 793	Total Excluded Recharges	Cr 711	Cr 5.61
209,403	Portfolio Total	190,298	1,502.49
Cr 19,698	Reversal of Net Capital Charges	Cr 10,203	Cr 80.56
Cr 2,741	Interest on General Fund Balances	Cr 3,491	Cr 27.56
4,400	Contribution to Investment Fund	7,402	58.44
Cr 2,964	Set Aside/Utilisation of Prior Year Collection Fund Surplus	4,912	38.78
14,003	Central Contingency Sum	15,298	120.77
	Levies		
475	- London Pension Fund Authority *	499	3.94
340	- London Boroughs Grants Committee	320	2.53
236	- Environment Agency *	248	1.96
376	- Lee Valley Regional Park *	395	3.12
203,830	Sub Total	205,678	1,623.91
Cr 67,380	Revenue Support Grant and Business Rate Retention	Cr 56,680	Cr 447.52
Cr 89	Local Services Support Grant	Cr 15	Cr 0.12
Cr 2,300	Collection Fund Surplus	Cr 4,912	Cr 38.78
Cr 4,400	New Homes Bonus	Cr 7,402	Cr 58.44
Cr 760	New Homes Bonus - London Top Slice (2015/16)	Cr 986	Cr 7.78
128,901	Bromley's Requirement (excluding GLA)	135,683	1,071.27

\* Final allocations awaited

## 2016/17 CENTRAL CONTINGENCY SUM

£'000

**Renewal and Recreation**

Planning appeals - changes in legislation	60
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**Grants included within Central Contingency Sum**

Lead Local Flood Authorities grant related expenditure (LSSG)	213
Tackling Troubled Families Grant Expenditure	426
Tackling Troubled Families Grant Income	Cr 426
SEND Implementation Grant Expenditure	177
SEND Implementation Grant Income	Cr 177

**General**

Provision for Unallocated Inflation	1,569
Impact of Chancellor's Summer Budget 2015 on future costs	4,250
Increase in cost of homelessness/impact of welfare reforms	2,983
General provision for risk/uncertainty	2,193
Provision for risk/uncertainty relating to volume and cost pressure	1,432
Impact of conversion of schools to academies	921
Other assumed reductions in grant funding (details awaited)	200
Retained Welfare Fund	450
Further reduction in Public Health grant (not yet allocated at this stage)	347
Deprivation of Liberty	314
Growth for waste services	267
Grants to voluntary organisations - pump priming funding	275
Other Provisions	341
Alternative Funding to be identified (Public Health)	Cr 958
Increase in C Tax Support from 19% to 25% - Cost of Collection	217
Acquisition of residential properties	Cr 457
HR/Finance impact of academy conversions	Cr 69
Care Act - Provision for additional costs	750

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 15,298

*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 2016/17 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 £20.4 million as at 31<sup>st</sup> March 2016 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 to 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 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 Growth Fund and Investment Fund. The latest projected level of general reserves remaining is £20.4m. 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. However, given the ongoing financial constraints and opportunities to reduce costs in the medium term, it may be necessary to review the approach to rolling programmes. The Executive Director of Environment and Community Services will be submitting a report to a future meeting considering upfront investment in footway and carriageway planned maintenance.
- 2.5 The most significant gain to balances was following the housing transfer to Broomleigh in 1992. 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.
- 2.6 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 planned capital receipts.
- 2.7 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. If the reserves were used to just balance the budget they would be fully spent in the next few years resulting in greater budget cuts in the future. Using this money to fund services is not a sustainable approach as these reserves are not budgets that are renewed every year. Similar to a savings account – once it is spent, it is gone. 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. It becomes increasingly more critical with the future devolution of business rates and associated risks (e.g. future recession) and the organisation moving to become "self-sufficient".
- 2.8 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.

2.9 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 including the sustainability of this measure over the lifetime of the medium term financial plan.

2.10 In the context of Bromley’s current financial position the reserves are adequate in 2016/17 and 2017/18. However, the important issue to consider is planning the future use of 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 1/4/15	Estimated Net Movement	Balance at 1/4/16	Estimated Movement	Estimated Balance at 1/4/17
	£'000	£'000	£'000	£'000	£'000
<b>EARMARKED BALANCES</b>					
LPSA/LAA Reward Grant Investment Fund	981	-130	851	-190	661
Technology Fund	1,824	-301	1,523	33	1,556
Town Centre Improvement Fund (LABGI)	66	-	66	-	66
Reserve for Potential Redundancy Costs	116	-	116	-	116
Investment to Community (Resources)	624	-75	549	-	549
Works to Property	100	-	100	-	100
Building Control Charging Account	131	-30	101	-	101
Government Grants (c/fwd from previous years)	2,373	-1,377	996	-184	812
Glaxo Wellcome Endowment	179	-19	160	-20	140
Public Halls Fund	7	-	7	-2	5
Investment Fund	33,670	-27,430	6,240	-6,240	-
Invest to Save Fund	13,343	-53	13,290	913	14,203
Bromley Welcare	29	-	29	-	29
One off Member Initiatives	1,039	-60	979	-169	810
Infrastructure Investment Fund	2,000	-19	1,981	-397	1,584
Commissioning Authority Programme	86	-57	29	-	29
Health & Social Care Initiatives – Promise Programme	5,953	-	5,953	-	5,953
Housing Strategy Trading Account	14	-14	-	-	-
Community Right to Bid & Challenge	46	-	46	-	46
Glades Refurbishment	97	-97	-	-	-
Refurbishment of War Memorials	16	-	16	-	16
Key Health & Social Care Initiatives	1,700	-	1,700	-	1,700
Integration of Health & Social Care Initiatives	1,709	-100	1,609	-	1,609
Cheyne woods & Cyphers Gate	187	-18	169	-20	149
Healthy Bromley Fund	3,815	-	3,815	-	3,815
Transformation Fund	4,464	-1,549	2,915	-1,566	1,349
Winter Pressures Reserve	1,542	-	1,542	-	1,542
Collection Fund Surplus Set Aside	2,964	-	2,964	-	2,964
Future Repairs of High Street Properties	7	12	19	12	31
Parallel Fund	2,866	-	2,866	34	2,900
Growth Fund	10,000	6,449	16,449	-3,055	13,394
Health & Social Care Integrated Commissioning Fund	4,550	-	4,550	-	4,550
Bromley Youth Music Trust	77	-77	-	-	-
Financial Planning & Risk Reserve	5,000	-	5,000	-	5,000
Bromley Welfare Fund	970	-125	845	-125	720
LBB Leased Properties Reserve	23	26	49	26	75
Business Rate Risk Reserve	1,200	-	1,200	-	1,200
<b>Sub Total</b>	<b>103,768</b>	<b>-25,044</b>	<b>78,724</b>	<b>-10,950</b>	<b>67,774</b>
<b>PROVISIONS</b>					
Insurance Fund	2,888	112	3,000	-	3,000
<b>OTHER</b>					
School Budget Share Funds	4,544	-1,426	3,118	-1,424	1,694
<b>Total Reserves</b>	<b>111,200</b>	<b>-26,358</b>	<b>84,842</b>	<b>-12,374</b>	<b>72,468</b>
<b>New Reserves Subject to Final Approval</b>					
Contribution to Investment Fund	-	-	7,402	-3,500	3,902
Set Aside of Prior Year Collection Fund Surplus	-	-	4,912	-	4,912
<b>Total Estimated Reserves</b>	<b>111,200</b>	<b>-26,358</b>	<b>97,156</b>	<b>-15,874</b>	<b>81,282</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 £7.4m in 2016/17 relating to new homes bonus to be used to generate income through the acquisition of investment properties.
- 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 the growth fund 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.
  - Health and Social Care (various) – there are monies set aside as part of a Section 256 agreement with Bromley Clinical Commissioning Group for the funding of the “Promise” programme and future transformation/integration of health and social care.
- 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 next triennial actuarial valuation will impact on the budget from 2017/18 to 2019/20 with the following valuation impacting from 2020/21.

## 4. **Budget Assumptions**

### 4.1 Treatment of Inflation and Interest Rates

- 4.1.1 The market continues to assume a rise in interest rates, but there is still no real sign of an increase and this is impacting on income from interest on balances. The Bank of England base rate has remained at 0.5% since March 2009 and this is now expected to start to rise slowly from the end of 2016, although this could be later. Credit ratings agencies and our advisers, Capita Treasury Solutions, continue to be cautious and this, together with low interest rates, continues to limit our interest earning capability. There remains a need to ensure that the Treasury Management Investment Strategy finds the right balance between Security, Liquidity



and Yield – in that order – but, notwithstanding that, the Council has, in recent years, explored and invested in alternative products that have increased interest returns at minimum additional risk. The Treasury Management Strategy has been reviewed on a number of occasions in the last two years and Members have approved investment in a property fund and in diversified growth funds and the increasing of lending limits to part nationalised banks which, jointly, have led to estimated additional income of £1.25m in 2016/17. A recent survey by Capita revealed that Bromley is currently achieving the highest returns out of a benchmark group of 15 local authorities, only three of which had a lower risk rating on their current investment portfolio. The alternative investments within Treasury Management relate are based on a longer term investment timeframe of at least 3 to 5 years. The 2016/17 Budget for interest on balances assumes income of £3.49m (i.e. the 2015/16 budget of £2.74m plus additional income from changes to the Treasury Management Investment Strategy £1.25m less loss of interest earnings following use of balances to fund investment property acquisitions £0.5m).

4.1.2 A general allowance of 1.2% has been built into the forecast for 2016/17 increasing to 2% per annum from 2018/19 for contractual running expenses. This compares with current general RPIX increase of 1.3% (Dec. '15).

4.1.3 The 2016/17 Budget includes the impact of the proposed salary increase of 1.2% for staff which is being considered by General Purposes and Licensing Committee on 10<sup>th</sup> February 2016.

#### **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 2015/16 and Annual Capital Review 2016 to 2020” 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 homelessness and the impact of welfare reforms. The draft 2016/17 Budget and future years financial forecast includes reasonable estimates of likely changes in activity in the next financial year.

#### **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 multiyear 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 2016/17, 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 2016/17 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. 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 2016/17 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 2014/15", considered by the Resources Portfolio Holder at the meeting of the Executive and Resources PDS Committee on 8<sup>th</sup> October 2015, 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 £8.9m in 2017/18 rising to £25.8m per annum in 2019/20, "balance sheet" liabilities (e.g. pension fund deficit) combined with the significant

funding reductions facing the Council in this austerity period. The “budget gap” may increase or reduce as a result of a number of variables in future years. 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.

- 4.11.1 The scale of the medium term “budget gap”, coupled with the significant financial uncertainty in the ongoing austerity period makes it important to maintain an adequate level of reserves to ensure the Council has sufficient resilience, flexibility and stability for longer term service delivery. Apart from 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 (Growth Fund) 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. The 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 Planning period.