
Decision Maker: **Executive Council**

Date: **14th September 2016**
26th September 2016

Decision Type: Non-Urgent Executive Non-Key

Title: **GOVERNMENT'S FOUR YEAR FUNDING OFFER**

Contact Officer: Peter Turner, Director of Finance,
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Chief Officer: Director of Finance

Ward: All

1. Reason for report

As part of the Local Government Finance Settlement 2016, Rt Hon Greg Clark, the Secretary of State for Communities and Local Government announced the "Four year funding offer". This report seeks Members approval to accept the funding offer on the basis it provides a minimum funding level and provides more certainty about future resources. Accepting the offer is not an endorsement by the Council that it represents a fair funding level and as indicated in the report, lobbying will continue for a better deal for Bromley and its residents.

2. **RECOMMENDATION(S)**

Executive are requested to:

- 2.1 **Recommend to Council the acceptance of the four year funding for the period 2016/17 to 2019/20.**

Council are requested to:

- 2.2 **Accept the four year funding offer for the period 2016/17 to 2019/20.**
- 2.3 **Subject to approval of 2.2 above, agree that if further changes are required to the Efficiency Plan (see 3.4.5), the amendments would be undertaken by the Director of Finance with the agreement of the Leader of the Council and the Resources Portfolio Holder.**

Corporate Policy

1. Policy Status: New policy. The report proposes a change that impacts on the Council's overall financial framework by accepting a four year Government funding offer
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: Estimated cost £No additional cost but could partly mitigate against the risk of further losses in government funding
 2. Ongoing costs: Non-recurring cost. N/A
 3. Budget head/performance centre: Council wide
 4. Total current budget for this head: £136m Revenue Budget agreed by Council in February 2016 - the Government funding is reflected in the Revenue Budget
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): N/A
 2. If from existing staff resources, number of staff hours: N/A
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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 1988, the Accounts and Audit Regulations 1996, the Local Government Act 2000 and the Local Government Act 2002
 2. Call-in: Call-in is applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): No direct customer impact from the proposal in this report.
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Ward Councillor Views

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

3. COMMENTARY

3.1 2016/17 Local Government Finance Settlement

- 3.1.1 Details of the Local Government Finance Settlement were reported to the Executive in January 2016 resulting in 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%).
- 3.1.2 The Leader 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 resulted 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.
- 3.1.3 The final 2016/17 Local Government Finance Settlement was published on 8th February 2016 and has resulted in some positive changes for the council as follows:
- (a) New Transitional Grant of £2.068m in 2016/17 and £2.052m in 2017/18 – although this represents one off income, it is still a significant contribution;
 - (b) No change for 2018/19 and 2019/20 funding levels. However, the Secretary of State has indicated that there will be 100% devolution of business rates by 2019/20 combined with a new “needs assessment” of the funding formula which will take place – this has been brought forward by a year.
- 3.1.4 To seek a better deal for Bromley, the Leader and Director of Finance met with Marcus Jones, Minister for Local Government on 25th May 2016 and further details are provided in Appendix 1.

3.2 Medium Term Financial Strategy and Efficiency Plan

- 3.2.1 The Council’s Medium Term Financial Strategy which includes actions to reduce the Council’s medium term budget gap was reflected in the following reports:

- (a) “Draft 2016/17 Budget and Update on Council’s Financial Strategy 2017/18 to 2019/20” (Executive on 13th January 2016).

<http://cds.bromley.gov.uk/documents/s50035624/Exec%20130116%20Draft%20Budget%20Report.pdf>

- (b) “2016/17 Council Tax” (Executive on 10th February 2016)

<http://cds.bromley.gov.uk/documents/s50036253/Exec%20100216%20Final%20Council%20Tax%20report.pdf>

3.2.2 The reports highlighted the Council's projected budget gap, consideration of approach to use of reserves and the options being undertaken with a "one council approach". The "One Council Approach" reported to the January 2016 meeting of the Executive consists of continuing to explore opportunities to provide a more sustainable financial position for the Council around the following areas:

- (a) Community Infrastructure Levy;
- (b) Utilisation of New Homes Bonus to generate sustainable investment income;
- (c) Opportunities arising from localisation of business rates;
- (d) Strategic asset review;
- (e) Utilisation of the growth fund to generate investment income, increase business rate share and employment opportunities;
- (f) Utilisation of investment fund to provide further investment benefits which helps protect key services (Council generates income of around £13m per annum from treasury management and investment properties);
- (g) Review of fees and charges;
- (h) Identifying new invest to save opportunities;
- (i) Ensuring best value and protecting services through commissioning and improved procurement arrangements;
- (j) Managing rising demand;
- (k) Exploring transformation opportunities including options around integration of health and social care;
- (l) Ongoing need for Chief Officers to continue to explore the opportunities for further savings to address the medium term budget gap.

3.2.3 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 will continue to be flexible and the Council's reserves resilient to respond to the impact of volatile external events and the ongoing structural budget deficit during this period.

3.3 Government Funding

3.3.1 The Council receives Government Funding as follows as part of the 2016/17 Budget:

	£'m
Revenue Support Grant * (see 3.3.4)	21.3
Business Rate Retention * (see 3.3.4)	35.2
Dedicated Schools Grant	82.9
Housing Benefit Grants	129.7
Other Government Grants	56.9
Total Government Funding	326.0

- 3.3.2 The four year funding offer relates to revenue support grant and business rate retention elements totalling £56.5m out of a total funding of £326m.
- 3.3.3 Although the table above shows that the Council still receives significant government funding, the majority is ringfenced e.g. funding for schools and housing benefits. The Council does not have flexibility to redirect such funding for other priority areas.
- 3.3.4 The following table sets out the four year Settlement Funding Assessment:

Settlement Funding Assessment	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m
Revenue Support Grant	21.3	10.9	4.4	0
Top Up	10.0	10.2	10.5	8.6
Local Share of Business Rates	25.2	25.7	26.4	27.3
Total *	56.5	46.8	41.3	35.9

*Excludes one off transitional grant of £4.1m (see 3.1.3 (a))

3.4 Considering the Funding Offer

- 3.4.1 Greg Clark referred to the value of signing up to the offer as “you’re not going to get any cuts more than that and you can proceed with certainty”. Any protection is subject to “economic shocks” which were “unanticipated”. One can only conclude that accepting the offer results in a lesser risk of further funding reductions.
- 3.4.2 Concerns have previously been expressed that accepting the offer could be viewed as an endorsement of the funding settlement for Bromley. However, as indicated elsewhere in this report, Bromley continues to seek a fairer level of funding and the offer is only a means of mitigating against further funding losses. Even accepting the offer does not protect the Council from the risk of other government funding reductions.
- 3.4.3 Members are requested to accept the funding offer on the basis that it provides some additional limited protection in funding.
- 3.4.4 A letter from Greg Clark providing background to Multi-Year Settlements and Efficiency Plans is attached in Appendix 2. The letter refers to “it is open to any council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement.”
- 3.4.5 As part of accepting the offer, an Efficiency Plan must be prepared and published by 14th October 2016. No detailed guidance has been issued by Government for the production of these plans but it must cover the full four year period and be open and transparent about the benefits this will bring to the council and the community. The Government have indicated that they do not expect this to be a significant burden on councils and draws together existing corporate plans and strategies. The suggested approach is to include this report with the links to the Medium Term Financial Strategy reports (see 3.2.1) as the Efficiency Plan submission.
- 3.4.6 If the DCLG request that changes are required to the Efficiency Plan, it is proposed that amendments are undertaken by the Director of Finance with the agreement of the Leader of the Council and the Resources Portfolio Holder.

3.5 Future Changes to the Council's Medium Term Financial Strategy

3.5.1 The Members' Finance Seminar held on 19th July 2016 highlighted further changes that will impact on the Council's medium term financial strategy which will be updated following the Chancellors next Autumn Statement. Examples of the changes are shown below:

- (a) Update on the Impact of Brexit, progress on economic growth and the impact on future planned public spending reductions to meet the Government's budget deficit;
- (b) Further changes arising from welfare reform;
- (c) Latest progress on impact of conversion of maintained schools to academies;
- (d) Financial impact of proposed New National Funding Formula (Education) which is currently expected to result in significant funding reductions for Special Educational Needs;
- (e) Financial impact of the Improvement Plan arising from the Ofsted Inspection;
- (f) Update on triennial valuation for the Council's Pension Fund;
- (g) Reduction in treasury management income arising from the fall in the bank base rate and the Bank of England providing additional low cost funding to the banking sector;
- (h) Upward pressure on inflation and its associated costs;
- (i) Update on risk and impact of a future recession;
- (j) Outcome of Government review of new homes bonus;
- (k) Update on no recourse to public funds and other new burdens arising from future legislative changes.

3.5.2 These are just some examples which highlight the continuous changes and cost pressures that impact on local government. At this stage the Efficiency Plan, to be submitted to DCLG, will reflect the Medium Term Financial Strategy reported to Members earlier this year.

4. POLICY IMPLICATIONS

4.1 The Council's key priorities are included within the Council's "Building a Better Bromley" statement and the proposal in this report seeks approval to provide additional limited protection for Government Funding utilised towards meeting these priorities.

5. FINANCIAL IMPLICATIONS

5.1 Covered in the main body of this report.

6. PERSONNEL IMPLICATIONS

6.1 None arising directly from this report.

7. LEGAL IMPLICATIONS

7.1 The Council is required to submit an Efficiency Plan as part of seeking a more secure four year funding settlement. As the Council agrees the annual budget and this reflows to funding for the next four years, the full endorsement of Council is sought to the proposal to seek the four year funding settlement.

Background Documents: (Access via Contact Officer)	2016/17 Council Tax, Executive, 10 th February 2016 Draft 2016/17 Budget and Update on Council's Financial Strategy 2017/18 to 2019/20, Executive 13 th January 2016
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Appendix 1

The Rt. Hon. Marcus Jones, MP
Parliamentary Under Secretary of State
For Communities & Local Government
2 Marsham Street
London SW1P 0AA

6th June 2016

Dear Mr Jones,

Follow up from Visit 25th May 2016

My sincere thanks for allowing me to meet with you and showing an interest in Bromley's views on the future Fair Funding arrangements. Enabling this meeting and offering an opportunity for future visits is most helpful.

We discussed some key points relating to matters that I feel should be fully considered as part of the Fair Funding review. These are summarised below. "Fair Funding" should have a mechanism to reward more efficient authorities by including financial incentives in the funding system. In terms of financial context, we believe Bromley has managed its finances extremely efficiently, despite having a low level of government funding and managing to retain a low council tax. This has only been achieved by keeping our costs low. We have effectively created a low cost base through many pioneering measures taken, including outsourcing on a large scale, transfer of housing stock and relentless cost control. However, this provides a further challenge as our scope to achieve savings through efficiencies is significantly reduced compared to other higher cost authorities and this should be recognised in any new system.

"Fair Funding" needs to recognise higher London costs which impacts on service costs and the financial impact of need. Bromley has one of the lowest Area Cost Adjustments for the London area and this needs to be reviewed to more closely reflect that costs in Bromley are as high as the South West of London.

Social Care responsibilities should be part of the adult social care formula and be excluded from any consideration of the council tax baseline. Bromley stand to lose up to £3m of additional funding from 2019/20 if the council tax baseline is taken into account. even though there is an increasing ageing population with social care needs.

Bromley's population is expected to increase by more than the national average by 2030 (funding is currently not reallocated based on population growth) and also Bromley has a higher increase in over 65 years (18.9%) compared with the rest of London (12.1%).

Benefits data, which is used in determining needs assessment, does not reflect the low level of take up (can it be adjusted to reflect lower take up compared with the rest of country?) and the impact of higher housing costs in London. Measuring deprivation levels after housing costs gives a more realistic assessment of disposable income and would help ensure a fairer assessment of need.

In terms of my discussion of the integration with Health, we still have funding silos and effectively there is a need for a whole systems review to ensure that funding follows the patient. We need to avoid the risk that investment in social care is restricted as savings in health care cannot easily be diverted. It is in the national interest that authorities like Bromley are empowered to spend money on health as well as social care to make best use of the public money available by creating innovative and cost effective

ways through integration to achieve better patient outcomes and better use of public resources. We are seeking your support to help remove any barriers to enable an effective local solution with our partners. Integration of health and social care will reduce pressure on the acute sector and it is clearly evidenced that social care, which represents a high proportion of local government expenditure, has an impact on the cost of and demand for NHS care. The ongoing funding reductions to local government make this more difficult to achieve and we can help ensure that public money directed towards health is better spent.

There are other matters which we did not discuss which are worth mentioning as follows:

- The resource element of any funding baseline should not reflect a notional council tax which may be higher than current council tax level for Bromley;
- Some form of “damping” protection would be needed to assist in forward planning;
- Authorities with low cost baseline should not face higher proportion of cuts to funding as part of ongoing austerity;
- Any Fair Funding solution needs to avoid the situation where low council tax authorities do not need to increase council tax as they have more generous settlement than other comparable authorities;
- London cost pressures relating to homelessness (for Bromley a further £4.5m per annum by 2019/20) – cost pressure mainly relating to London and a few other areas;
- The relative size of the Needs and Resource amounts are ultimately set by DCLG on the basis of judgement – this level of judgement needs to be reviewed to ensure it becomes “fit for purpose”;
- Council tax Freeze Grants (Bromley received grants equivalent to 3.5% of council tax baseline) should continue to be built into any future baseline – this is essential for boroughs that are more reliant on council tax revenue.

I welcome your real engagement with local authorities relating to Fairer Funding coupled with the previous meeting with Greg Clark to consider the wider devolution of business rates. This level of positive engagement will help us work together to find solutions that work for our residents and taxpayers to meet the necessary austerity measures.

I attach for background information the Council’s response to the Local Government Financial Settlement 2016/17 which provides some further background details.

I look forward to taking up your offer to meet again, as the work on the Fair Funding review progresses.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Carr'. The signature is fluid and cursive, with a long horizontal stroke extending from the left.

Cllr Stephen Carr

c.c. Local MPS