

Decision Maker: Public Protection & Safety PDS Committee

Date: 18th January 2017

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

Title: DRAFT 2017/18 BUDGET

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Chief Officer: Nigel Davies, Executive Director of Environment and Community Services

Ward: Boroughwide

1. Reason for report

- 1.1 The prime purpose of this report is to consider the Portfolio Holder's Draft 2017/18 Budget which incorporates the full year effect of savings agreed as part of the 2016/17 Council Tax report and any further savings approved during the year which have resulted in considerable reductions in the Council's medium term "budget gap". Members are requested to consider the initial draft budget savings proposed and also identify any further action that might be taken to reduce cost pressures facing the Council over the next four years.
 - 1.2 Executive are requesting that each PDS Committee consider the proposed initial draft budget savings and cost pressures for their Portfolio and the views of each PDS Committee be reported back to the next meeting of the Executive, prior to the Executive making recommendations to Council on 2017/18 Council Tax levels.
 - 1.3 There are still outstanding issues and areas of uncertainty remaining. Any further updates will be included in the 2017/18 Council Tax report to the next meeting of the Executive.
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2. **RECOMMENDATION(S)**

The PDS Committee are requested to:

- (a) Consider the update on the financial forecast for 2017/18 to 2020/21;
- (b) Consider the initial draft 2017/18 Budget as a basis for setting the 2017/18 Budget;
- (c) Provide comments on the initial draft 2017/18 Budget for the February meeting of the Executive.

Impact on Vulnerable Adults and Children

1. Summary of Impact: The draft 2017/18 Budget reflects the Council's key priorities which includes, for example, supporting vulnerable adults with children and being ambitious for all our children and young people.
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Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Excellent Council Quality Environment
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Financial

1. Cost of proposal: Not Applicable
 2. Ongoing costs: Recurring Cost
 3. Budget head/performance centre: Public Protection and Safety Portfolio Budgets
 4. Total current budget for this head: £2.119m
 5. Source of funding: Draft revenue budget for 2017/18
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Personnel

1. Number of staff (current and additional): full details will be available with the Council's 2017/18 Financial Control Budget published in March 2017
 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 Local Government Act 2000; the Local Government Act 2002 and the Accounts and Audit Regulations 2015.
 2. Call-in: Applicable
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Procurement

1. Summary of Procurement Implications: N/A
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): The 2016/17 budget reflects the financial impact of the Council's strategies, service plans etc which impact on all of the Council's customers (including council tax payers) and users of the services.
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Ward Councillor Views

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

3. COMMENTARY

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

- 3.1 Forward financial planning and financial management is a key strength at Bromley and this has been recognised previously by our external auditors. This report continues to forecast the financial prospects for the next 4 years and includes the Government's provisional core funding allocations for 2017/18 to 2019/20. At the time of writing this report, further details on various grant funding is awaited and it is important to note that some caution is required in considering any projections for 2018/19 to 2020/21.
- 3.2 The overall national debt stands at £1.7 trillion and is expected to increase to £1.9 trillion by 2019/20. The Autumn Statement 2016 identified that public sector net borrowing is expected to be £68.2bn this year which is planned to move to a deficit of £21.9bn from 2019/20 (previously planned to achieve a surplus of £10.1bn in 2019/20). The Chancellor has said that he is committed to returning public finances to balance 'as soon as practicable'. This highlights that austerity for local government is likely to continue beyond 2019/20. Departmental spending plans set out in the Spending Review 2015 remain in place. Therefore, the fiscal squeeze will continue and with ongoing protection of health, education and recently police and other security services. The disproportionate cuts in direct funding to local government will continue over the remainder of the four year spending review period. The impact of funding reductions translates to a reduction in the Council's Settlement Funding Assessment of 36% by 2019/20 compared with the England average of 21.6% for the period 2016/17 to 2019/20. An update on the economic situation which can impact on public finances is provided in Appendix 1.
- 3.3 Although there are significant funding cuts facing local government, the Chancellor repeated the aims of devolution, as part of the Autumn Statement 2016, which includes transforming local government, enabling it to be more self-sufficient. The Government views the new flexibilities such as the future growth forecasts from business rates, to be fully devolved to local government by 2020 combined with scope for an increase in council tax for the adult social care precept and the ongoing ability to increase council tax as methods which can significantly mitigate against the impact of grant reductions.
- 3.4 The Budget Strategy has to be set within the context of a reducing resource base, with Government funding reductions continuing beyond 2020 – the on-going need to reduce the size and shape of the organisation to secure priority outcomes within the resources available. There is also a need to build in flexibility in identifying options to bridge the budget gap as the gap could increase further. The overall updated strategy has to be set in the context of the national state of public finances, with austerity continuing given the level of public sector debt, and the high expectation from Government that services should be reformed and redesigned with devolution contributing to the transformation of local government. There is also an on-going need to consider "front loading" savings to ensure difficult decisions are taken early in the budgetary cycle, to provide some investment in specific priorities, to fund transformation and to support invest to save opportunities which provide a more sustainable financial position in the longer term. Any decisions will need to consider the finalisation of the 2017/18 Budget as well as the longer time frame where it is now clear that the continuation of the period of austerity remains for local government.
- 3.5 Bromley has the lowest settlement funding per head of population in the whole of London. Despite this, Bromley has retained the second lowest council tax in outer London (other low grant funded authorities tend to have higher council tax levels). This has been achieved by having one of the lowest costs per head of population in outer London. Despite being a low cost authority, Bromley has achieved general savings of over £80m since 2011/12 but it becomes more challenging to achieve further savings with a low cost base. Further details

are provided in Appendix 2.

- 3.6 One of the key issues in future year budgets will be the balance between spending, council tax levels, charges and service reductions in an organisation starting from a low spending base. It is important to recognise that a lower cost base reduces the scope to identify efficiency savings compared with a higher cost organisation.

Changes that could impact on longer term financial projections

- 3.7 The 2016/17 Council Tax report reported to Executive in February 2016 identified a significant “budget gap” over the four year financial planning period. The forecast was updated to inform the public meetings held in November 2016. Some key changes are summarised below.
- 3.8 There continues to be upward pressure on inflation and the 2017/18 Draft Budget and financial forecast assumes increased costs of 2.7% per annum for 2017/18 and 2018/19 reducing to 2.5% per annum from 2019/20. The inflation mainly relates to contract price increases. The main measure used for contract price increases is RPIX which is currently 2.5%. The Autumn Statement 2016 reported that inflation (RPI) is expected to be 3.2% in 2017, 3.5% in 2018, 3.2% in 2019 and 3.1% in 2020. A separate provision has also been reflected in the Draft 2017/18 Budget to meet the future increase in costs of the National Living Wage. Action will need to be taken by Chief Officers to fund increasing costs through alternative savings in the event that inflation exceeds the budget assumptions.
- 3.9 Following a newly elected national government, the Chancellor’s Summer Budget 2015 introduced a new national Living Wage with significant cost implications to the Council over the next few years. As previously expected in the financial forecast, the Chancellor announced, as part of his Autumn Statement 2016, further increases in the National Living Wage from 2017.
- 3.10 Despite the range of initiatives being taken to help reduce the increase in temporary accommodation pressures, the financial forecast assumes additional costs in 2017/18 of £2.25m rising to £6.0m per annum by 2020/21. The roll out of universal credit, reduction in housing benefit cap and changes to local housing allowances arising from welfare reform changes have contributed towards these increasing costs.
- 3.11 At its meeting on 18th October 2016, Executive considered the ‘Highways Investment’ report and approved capital funding for investment in planned highway maintenance to be funded by capital receipts. This will result in a reduction in the Council’s revenue budget for highways works of £2.5m per annum for the period 2017/18 to 2021/22 which will be partly offset by a reduction in treasury management income (£167k over a five year period). The funding also helps partly mitigate against future cost pressures on the highways budget. This funding was subsequently approved by full Council.
- 3.12 At its meeting on 14th September 2016, Executive considered the “Ofsted Inspection of Children’s Services” report and approved additional revenue funding of £949k in 2016/17 with a full year effect of £1,471k for Phase One and Phase Two. Funding for Phase Three of £141k in 2016/17 and £795k in the full year was also considered and any release of Phase 3 funding will be subject to a report to the Executive. The cost for Phase 3 has been included in the 2017/18 Draft Central Contingency Sum. Overall funding of £2,314k in 2017/18 and £2,266k in the full year has been included in the Draft 2017/18 Budget and the financial forecast.
- 3.13 There are further cost pressures relating to children’s social care which were reported in the ‘Budget Monitoring 2016/17’ report to Executive on 30th November 2016 and the full year effect of £2,093k has been included in the Draft 2017/18 Budget. Action is being taken by the Deputy Chief Executive & Executive Director for Education, Care and Health Services to provide a fundamental review of the placements budget which could potentially provide a corresponding

reduction of £2,093k by 2018/19. However, a prudent approach has been adopted and an equivalent sum of £2,093k will be set aside as a financial risk reserve from 2018/19, at this stage.

- 3.14 In addition, there have been overspends identified in the last 2016/17 Budget Monitoring report to Executive on 30th November 2016 relating to adult social care and SEN transport. Details were provided in the report to the Executive. The full year effect of these items is currently estimated at £2,200k. In view of the need to address the cost pressures and the uncertainty on the final financial impact, a sum of £2,200k has been included in the Draft 2017/18 Central Contingency Sum at this stage. The Deputy Chief Executive & Executive Director for Education, Care and Health Services will be seeking to establish the extent of the ongoing cost pressures and any measures to mitigate against such cost.
- 3.15 The Government previously announced additional funding for the Better Care Fund (currently combined funding with Bromley CCG of £21.6m) and the financial forecast assumes that these monies may be required to meet future new burdens on social care at this stage. The additional funding is back-loaded with lower funding available to Bromley from 2018/19 increasing to an estimated £4.6m per annum by 2019/20. This position will be reviewed prior to finalising the 2018/19 Budget. The Government announced one off funding of £1,196k for Adult Social Care as part of Local Government Finance Settlement 2017/18. The Draft 2017/18 Budget assumes that this funding is not ring-fenced. Details of the grant conditions are still awaited and this position may change once the final details are known.
- 3.16 The Spending Review and Autumn Statement 2015 included reference to Councils being allowed to have a council tax precept of up to 2% per annum to specifically fund adult social care (a 2% increase in council tax equates to £2.7m additional income per annum). Councils were able to levy the precept on top of the existing freedom to raise council tax by up to 2% without holding a referendum. Therefore, the Council could potentially have a council tax increase of just below 4% without the need for a council tax referendum. The Government introduced this change in recognition of the cost pressures facing social care authorities. As part of the Local Government Finance settlement the Government announced that the annual Social Care Precept of 2% can be applied at 3% in 2017/18 and 2018/19 subject to a maximum of 6% across the period 2017/18 to 2019/20. The financial forecast assumes an ongoing increase of the precept of 2% per annum. The Government recognise that the precept can also include, for example, funding the additional cost of the new Living Wage. Members will be requested to consider applying the precept as part of the 2017/18 Council Tax report to the Executive on 8th February 2016.
- 3.17 The additional funding for the Better Care Fund and the higher proportion of funding cuts in core grant to the Council now take into account the amount that can be raised locally through council tax and the adult social care precept. Therefore, there is an inherent assumption that local authorities will be increasing council tax and utilising the adult social care precept to mitigate against the loss of grant funding and towards meeting the cost of social care. For Bromley, this change does not take into account any need to address low funding levels for the Council raised previously with the Government. Therefore the starting point relating to funding levels remains unchanged, despite the Council's concerns. Councils can still choose locally the level of council tax increase required, subject to referendum options. In calculating the Council's spending power, the Government has assumed that social care authorities will have an average council tax increase applying both the social care precept and general council tax increases every year. 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 social care costs, demographic cost pressures and to meet the ongoing "budget gap".

- 3.18 Details of various grant allocations for 2017/18 are still awaited at the time of writing this report. These include, for example, Better Care Fund. Details of the grant conditions for the Adult Social Care Support Grant is also awaited which may impact on the 2017/18 Draft Budget.
- 3.19 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 potential income in 2017/18 totaling £12.7m from a combination of treasury management income and rents from investment properties. Without this income, equivalent service reductions may be required. Investment in economic growth (Growth Fund) will also be key to generate additional business rate income.
- 3.20 The latest forecast indicates that despite having a balanced budget in the next two years there remains a significant budget gap in future years that will need to be addressed.

Latest Financial Forecast

- 3.21 The report to Executive in January 2017 identified a budget gap rising to over £23.6m by 2020/21 which is broken down in the table below. The gap rises steeply from 2019/20: -

Variations Compared with 2016/17 Budget

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Cost Pressures				
Inflation	4.6	9.9	15.2	20.7
Grant Loss (net of Adult Social Care Support Grant)	8.8	18.4	24.7	29.4
Potential Impact of Chancellor's 2015 Summer Budget on Future Costs (eg. welfare reforms and new living wage)	0.7	4.5	7.7	8.5
Review of Children's Services following Ofsted Report	2.3	2.3	2.3	2.3
Children's Placements - full year effect of 2016/17 overspend	2.1	2.1	2.1	2.1
Review of Children's Placements	0.0	-2.1	-2.1	-2.1
Provision for Cost Pressures - Children's Social Care	0.0	2.1	2.1	2.1
Full Year Effect of Additional Costs re. Adult Social Care and Education SEN	2.2	2.2	2.2	2.2
Impact of Reduction in Bank Base Rate	0.6	0.6	0.6	0.6
Commissioning Programme (one-off funding)	0.5	0.0	0.0	0.0
Real Changes (see Appendix 5)	-0.1	1.3	1.3	2.1
Total Additional Costs	21.7	41.3	56.1	67.9
Income / Savings				
Full Year Effect of Savings Agreed as part of 2016/17 Budget	-3.3	-4.2	-4.3	-4.3
Impact of Highways Investment Report	-2.5	-2.5	-2.5	-2.5
Acquisition of Residential Properties to Accommodate Homeless and "Gifting" of Scheme to Pension Fund	-2.2	-3.7	-4.1	-4.1
Reduction in Council's Central Contingency Sum	-0.7	-2.4	-2.5	-2.5
Additional Income from Business Rate Share	-0.3	-0.6	-0.9	-1.2
Additional Income Opportunity (TFM Contract)	0.0	-0.5	-0.7	-0.9
Total Income / Savings	-9.0	-13.9	-15.0	-15.5
Other Proposed Changes				
New Homes Bonus - Support for Revenue Budget	-6.0	-3.2	-2.5	-1.0
New Homes Bonus - Reallocation	2.2	-2.2	0.0	0.0
Impact of Pension Fund Triennial Valuation (Provisional)	-1.5	-1.5	-1.5	-1.5
Collection Fund Surplus 2014/15 and 2015/16 (set aside to meet funding shortfall in future years)	0.0	-6.9	-4.4	0.0
Total Other Proposed Changes	-5.3	-13.8	-8.4	-2.5
Council Tax				
Increase in Council Tax Base to reflect additional properties and increased collection rates	-2.0	-2.7	-3.3	-4.0
Impact of 3.99% Increase in Council Tax (including Adult Social Care Precept)	-5.4	-10.9	-16.6	-22.3
Total Council Tax	-7.4	-13.6	-19.9	-26.3
Remaining "Budget Gap"	0.0	0.0	12.8	23.6

The above table shows, for illustrative purposes the impact of a council tax increase of 3.99% in 2017/18 (including adult social care precept). Each 1% council tax increase generates on-going annual income of £1.4m.

- 3.22 The table shows that the Council, on a roll forward basis, has a “structural deficit” as the on-going budget has increasing costs relating to inflation and service pressures as well as the on-going loss of Government grants. These changes are not being funded by a corresponding growth in income. The above projection includes savings previously agreed to reduce the “budget gap”.
- 3.23 Although it has been possible to achieve a potential balanced budget for the next two years through a combination of front loading savings in previous years, proactively generating investment income and prudent financial management, there remains a “budget gap” of £12.8m in 2019/20 rising to £23.6m in 2020/21. The projections in later years have to be treated with some caution.
- 3.24 The Council has to continue to plan for a very different future, i.e. several years of strong financial restraint. It is important to recognise that, given the current ongoing period of austerity for local government, the downside risks remain significant and that the budget gap in future years could widen substantially.
- 3.25 In considering action required to address the medium term “budget gap”, the Council has taken significant action to reduce the cost base while protecting priority front line services and providing sustainable longer term solutions. Significant savings were identified as part of the 2016/17 budget (£15.7m in 2016/17 rising to £20.0m by 2019/20) and the full year effect of these savings is reflected in the table at para. 3.8.

Growth Pressures & Real Changes

- 3.26 There are no growth pressures included in the four year forecast for the Public Protection and Safety Portfolio.

Saving Options

- 3.27 There are no new savings options relating to the Public Protection and Safety Portfolio. Appendix 1 includes the draft estimate summary sheet, budget variations (including the full year effect of saving options agreed for 2016/17), notes on the budget variations and the subjective analysis.

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

- 4.1 The draft 2017/18 Budget reflects the Council’s key priorities which includes, for example, supporting vulnerable adults with children and being ambitious for all our children and young people.

5. POLICY IMPLICATIONS

- 5.1 The Council launched the updated “Building a Better Bromley 2016-2018” and the budget proposals reflect the Council’s priorities. “Building a Better Bromley 2016-2018” identifies key priorities as follows

- Ensure financial independence and sustainability;
- Invest in our business and our people
- Ambitious for all our children and young people
- Enhance our clean and green Borough.

5.2 Ensure financial independence and sustainability priorities include:

- Strict management of our budgets to ensure we live within our means
- Working to achieve the benefits of the integration of health and social care
- Early intervention for our vulnerable residents

6. FINANCIAL IMPLICATIONS

6.1 The financial implications are contained within the overall report.

7. PERSONNEL IMPLICATIONS

7.1 Staff, departmental and trade union representatives will be consulted individually and collectively on any adverse staffing implications arising from the Draft 2017/18 Budget. Managers have also been asked to encourage and facilitate staff involvement in budget and service planning.

8. LEGAL IMPLICATIONS

8.1 The adoption of the budget and the setting of the council tax are matters reserved for the Council upon recommendation from the Executive. The Local Government Finance Act 1992 (as amended) requires the Council to set an amount of Council tax for each financial year and provides that it must be set before 11th March in the financial year preceding that for which it is set. Sections 73-79 of the Localism Act 2011 amended the calculations billing and precepting authorities need to make in determining the basic amount of Council tax. The changes included new sections 31 A and 31 B to the Local Government Finance Act 1992 which has modified the way in which a billing authority calculates its budget requirement and basic amount of Council Tax.

8.2 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.

8.3 The Education Act 2005 introduced the concept of a funding period, which allows for the introduction of multiple year budgets rather than the setting of financial year budgets.

8.4 Executive is being requested to delegate the setting of the schools budget funded through the Dedicated Schools Grant to the Education Portfolio Holder.

8.5 The making of these budget decisions at full Council is a statutory responsibility for all Members. Members should also have regard to the changes from the Localism Act relating to council tax increases and the recent introduction of the Adult Social Care precept. The Council has a number of statutory duties which it must fulfil by law – although there can be an element of discretion on level of service provision. The Council also discharges a range of discretionary services. The Council is not bound to carry out such activities in the same way as it is for statutory duties – although it may be bound contractually to do so. A decision to cease or reduce provision of a discretionary service must be taken in accordance with sound public /administrative law decision making principles. The Council must also comply with the Public sector Equality Duties in section 149 of the Equality Act 2010. In doing so, the Council must have due regard to elimination of discrimination, harassment and victimization, advance equality of opportunity and foster good relations with persons who share a protected characteristic.

- 8.6 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 adequacy of future years reserves in making budget decisions and section 25 of that act requires the Director of Finance to report on the robustness of the estimates made for the purposes of calculating the Council Tax and the adequacy of the reserves. Further details to support these obligations will be reflected in the 2017/18 Council Tax report to be reported to the February meeting of the Executive.

Non-Applicable Sections:	Procurement implications
Background Documents: (Access via Contact Officer)	Finance Monitoring, Estimate Documents etc all held in Finance Section