Report No.
FSD18016

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: **Executive**

Date: **7th February 2018**

Decision Type: Non-Urgent Executive Key

TITLE: **2018/19 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 2018/19 revenue budget and seeks recommendations to the Council on the level of the Bromley element of the 2018/19 Council Tax and Adult Social Care precept. Confirmation of the final GLA precept will be reported to the Council meeting on 22nd February 2018. 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 2018/19 but to have measures in place to deal with the medium term financial position (2019/20 to 2021/22).

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2. RECOMMENDATIONS

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

(a) Approves the schools budget of £76.696m which matches the estimated level of Dedicated Schools Grant (DSG), after academy recoupment;

(b) Approves the draft revenue budgets (as in Appendix 2) for 2018/19;

(c) Agrees that Chief Officers identify alternative savings within their departmental budgets where it is not possible to realise any savings reported to the previous meeting of the Executive held on 10th January 2018;

(d) Approves a contingency sum of £14,857k (see section 5);

(e) Approves the following provisions for levies for inclusion in the budget for 2018/19;

	£'000
Local Pension Partnership *	***487***
London Boroughs Grant Committee	***248***
Environment Agency (Flood defence etc.) *	***250***
Lee Valley Regional Park *	***380***
Total	***1,398***

*** 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 2018/19 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 the final Local Government Finance Settlement 2018/19 is still awaited and the late information from the Valuation Office Agency could also have an impact on the final 2018/19 Budget position {see 4.1 (f)};

(j) 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);

(k) Agrees that the Director of Finance be authorised to report any further changes directly to Council on 26th February 2018.

Corporate Policy

Policy Status: Existing Policy

BBB Priority: Excellent Council

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 £151m Draft 2018/19 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 2018/19 Financial Control Budget to be published in March 2018

2. If from existing staff resources, number of staff hours – N/A

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 is applicable

Customer Impact

Estimated number of users/beneficiaries (current and projected) - the 2018/19 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 10th July 2017 which provided some detailed financial context. There has been a separate seminar on Welfare Reform on 27th November 2017. The presentations are available on 'One Bromley'.

3.2 The 'Draft 2018/19 Budget and Update on the Council's Financial Strategy 2019/20 to 2021/22' was reported to the Executive on 10th January 2018. 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 10th January 2018)

(a) Approach to Budgeting, Financial Context and Economic Situation which can impact on Public Finances (Section 3 and Appendix 1);
(b) Autumn Budget 2017 and Provisional Local Government Finance Settlement 2018/19 (Appendix 2);
(c) Council Tax Levels, Government Funding and Spend Levels (Appendix 3);
(d) Changes since the 2017/18 Budget that impact on the Financial Forecast (Section 4);
(e) Joining the London Business Rate Pilot Pool (see Section 4.7 and Appendix 4);
(f) Latest Financial Forecast including real changes (Section 6 and Appendices 5-6);
(g) Detailed Draft 2018/19 Budget (Section 7 and Appendix 7);
(h) Options being undertaken with a "One Council" approach (Section 8);
(i) Identifying further savings (Section 9);
(j) Future Local Authority Landscape (Section 10);
(k) The Schools' Budget (section 12);
(l) Issues for Future Years (Section 14);
(m) Consultation (Section 17 and Appendix 10);
(n) Risk Areas within each Portfolio (Section 18 and Appendix 11)

All of the above should be considered with this report as part of finalising the 2018/19 Budget and council tax levels.

4. 2018/19 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) There has been upward pressure on inflation since the 2017/18 Budget was set and the 2018/19 Draft Budget and financial forecast assumes increased costs of 3.5% per annum for 2018/19 and 2019/20 reducing to 2.5% per annum from 2020/21. The inflation mainly relates to contract price increases. The main measure used for contract price increases is RPIX. The Autumn Budget 2017 reported that inflation (RPI) is expected to be 3.1% in 2018/19, 2.8% in 2019/20 and 2.9% in 2020/21 and 2021/22. Since the last meeting of the Executive the latest annual increase in RPIX (Dec.'17) is 4.2% which compares with 4.0% in the previous month. At the previous meeting of the Executive, members agreed that 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;

(b) There was an announcement in the Provisional Local Government Financial Settlement 2018/19 that additional funding would be available for Unaccompanied Asylum Seeker Children. One off funding of £231k in 2018/19 was announced for Bromley on 16th January 2018. The grant conditions are awaited;

(c) The Resources Portfolio Holder announced at the last meeting of the Executive that the Council is proposing a pay award of 2% for Council staff. Further details are being reported to General Purposes and Licensing Committee on 6th February 2018. The financial impact of this proposal has been included in the Draft 2018/19 Budget;

(d) The final allocations for Public Health Grant have been announced and, compared with the current funding of £15.1m there will be funding reductions of £388k in 2018/19 with further reductions of £388k in 2019/20 (total of £776k per annum from 2019/20). The funding reduction previously assumed were £410k and £820k respectively;

(e) The Provisional Local Government Financial Settlement 2018/19 was announced on 19th December 2017 and the final outcome following the consultation period is expected to be announced in February. A verbal update will be provided at the meeting to cover any further changes arising from the awaited final settlement and from any other significant changes;

(f) After the Provisional Local Government Financial Settlement 2018/19, the Valuation Office Agency published updated revaluation data to change the information used to calculate the Settlement totals. The lateness of these revisions creates a degree of uncertainty on the final Settlement position. It is not clear, at this stage, whether the corrections will impact on the Council's 2018/19 Budget.

(g) There is also uncertainty around the treatment of Section 31 grants following the introduction of the London Business Rate Pool and the increased level of retained business rates – clarification is awaited. The additional income of £2.9m, included in the 2018/19 Budget, from the Pool is based on London Councils' provisional estimates which are currently being updated.

4.2 A summary analysis of key variations in the Draft 2018/19 Budget, compared with the 2017/18 Budget, are shown in Appendix 1 and summarised below.

Variations Compared with 2017/18 Budget	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Grant Loss	**8.5**	**14.0**	**18.4**	**22.2**
Cost Pressures				
Inflation (including impact of National Living Wage)	9.1	19.1	27.5	34.4
Welfare Reforms and Impact on Homelessness	2.0	4.3	5.8	7.8
Homelessness Reduction Act	0.7	0.7	0.7	0.7
Environmental Services contract & other key contracts	0.0	2.0	4.0	4.0
Full year effect of adult social care spend not funded by IBCF	0.0	1.0	1.0	1.0
Children's Social Care	1.1	1.1	1.1	1.1
Real Changes (see Appendix 6)	2.0	1.6	2.0	2.5
Total Additional Costs	**14.9**	**29.8**	**42.1**	**51.5**
Income / Savings				
Savings from Office Accommodation Review	0.0	-0.6	-0.6	-0.6
Acquisition of Residential Properties to Accommodate Homeless (Mears)	-1.0	-1.9	-1.9	-1.9
Additional Income Opportunity (Amey)	-0.5	-0.7	-0.9	-0.9
Additional Income from Business Rate Share	0.0	-0.6	-0.9	-0.9
Impact of London Pilots of Business Rates	-2.9	0.0	0.0	0.0
Interest on balances - additional income	-0.6	-0.2	-0.1	0.0
Release general provision in contingency for significant uncertainty/variables	-2.0	-2.0	-2.0	-2.0
Savings from recommisioning/retendering of various contracts	-1.1	-1.1	-1.2	-1.2
Fall out of Comissioning Programme funding	-0.5	-0.5	-0.5	-0.5
Savings from Childrens Social Care linked to Invest to Save funding	0.0	-0.3	-0.8	-1.0
Total Income / Savings	**-8.6**	**-7.9**	**-8.9**	**-9.0**
Other Changes (includes use of non-recurring funds)				
New Homes Bonus - Support for Revenue Budget	-1.9	0.8	2.8	3.8
Total Other Changes	**-1.9**	**0.8**	**2.8**	**3.8**
Council Tax				
Increase in Council Tax Base to reflect additional properties and increased collection rates	-1.6	-2.3	-2.9	-3.6
Impact of 3.99% Increase in Council Tax (including Adult Social Care Precept)	-5.7	-11.6	-17.8	-24.2
Total Council Tax	**-7.3**	**-13.9**	**-20.7**	**-27.8**
Use of non-recurring Collection Fund surplus to support the revenue budget				
Collection Fund Surplus 2014/15 (set aside to meet funding shortfall in 2018/19)	-4.9	0.0	0.0	0.0
Collection Fund surplus 2015/16 (£6,401k carry forward to 2018/19 and 2019/20)	-0.7	-5.7	0.0	0.0
Collection Fund surplus 2016/17	-7.9			
Collection Fund surplus 2016/17 set aside to support the 2019/20 Budget	7.9	-7.9	0.0	0.0
Projection of future year collection fund surplus	0.0	-4.0	-3.0	-2.0
Total use of non-recurring Collection Fund surplus	**-5.6**	**-17.6**	**-3.0**	**-2.0**
Remaining "Budget Gap"	**0.0**	**5.2**	**30.7**	**38.7**

4.3 These variations are subject to any final decision on Council Tax levels. Appendix 2 derives an illustrative 'Bromley element' Council Tax of £1,158.48 (1.99% general increase plus 2% adult social care precept) and Appendix 3 includes the Draft 2018/19 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 highlights that, although it has been possible to achieve a balanced budget for the next year through a combination of front loading savings in previous years, proactively generating investment income and prudent financial management. There remains a 'budget gap' of £5.2m in 2019/20 rising to £38.7m in 2021/22. The remaining budget gap 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 fully funded by a corresponding growth in income from council tax, Adult Social Care Precept or other sources of income. The 'budget gap' may increase or reduce as a result of a number of variables in future years. The projections in later years have to be treated with some caution, particularly as the Government's next spending review is expected to be implemented from 2020/21 which will include the revised levels of funding for individual local authorities following the 'Fair Funding' review. The Government is consulting on the early stages of the 'Fair Funding' review.

4.5 The Council has to continue to plan for 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 2019/20 with further reductions assumed for 2020/21 and 2021/22. 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 and future new burdens. The Council is participating in the London Business Rate Pool in 2018/19 and the full devolution of business rates by 2020/21 will create new risks as well as opportunities 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 26th February for the finalisation of the Council Tax, to reflect latest available information on levies, and the GLA precept.

4.7 The key net cost pressures consist of inflation, including impact of National Living Wage (£9.1m), impact of grant reductions (£8.5m) and various growth pressures (£5.8m) totalling £23.4m in 2018/19. This sum increases to an estimated £73.7m per annum by 2021/22. If further growth pressure continues in these areas, as well as other areas, the future years 'budget gap' could increase.

5. DRAFT 2018/19 CENTRAL CONTINGENCY SUM

5.1 Details of the 2018/19 Draft Contingency Sum of £14,857k have been included in Appendix 3. This sum allows for proper financial planning and ensures the council is prepared for changes in financial circumstances. It is important to recognise that this includes various significant costs not allocated to Portfolio budgets at this stage. Therefore, there may be further changes to the Central Contingency to reflect allocations to individual Portfolio Budgets which will be reflected in the 2018/19 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 2018/19 Budget.

6. EARMARKED RESERVES

6.1 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 and Investment Fund. These funds will help support the achievement of sustainable savings/income to the Council.

6.2 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.

6.3 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 at about average for London and have to be considered in the context of an underlying 'budget gap' of £38.7m per annum by 2021/22.

6.4 The Council had general reserves remaining of £20m as at 31/3/2017. A full breakdown of reserves including earmarked reserves is detailed in Appendix 4.

6.5 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. 2017/18 BUDGET MONITORING

7.1 The most recent budget monitoring position was reported to Executive on 6th December 2017. The report identified an overall net underspend of £289k but highlighted full year costs of £3.3m The majority of these costs related to Care Services (£3.1m) and have been included in the 2018/19 Budget. Funding of £2m from the Improved Better Care Fund has been used towards these costs in 2018/19.

8. THE SCHOOLS BUDGET

8.1 Since 2003/04, the Council has received funding for the Schools Budget element of Education services through a ring fenced grant, more recently through the Dedicated Schools Grant (DSG).

8.2 The introduction of the National Funding Formula (NFF) will begin in 2018/19. Funding has been split into four blocks; Schools, High Needs, Early Years and Central spend DSG. The funding has now become more rigid with meaning that the scope for transfer between blocks is limited.

8.3 Final allocations have been announced and are driven mainly by pupil numbers. The Early Years block has also increased due to the extension of the 15 hours entitlement which added £2m to the block. This will be offset by additional expenditure. The High Needs Block is seeing pressure coming through the system with expenditure rising at a faster rate than the grant allocation.

8.4 To this end the Council applied to DfE for a disapplication request to transfer £1m from the Schools Block element of the DSG to the High Needs Block. DfE have approved this request.

8.5 The Schools Budget includes the delegated budgets for individual maintained 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 this in the main although £1m of Council funds has been allocated to High Needs spend to cover the shortfall in funding arising from the NFF.

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

8.7 For the first two financial years of the NFF (2018/19 and 2019/20), the Council is permitted to move towards to the NFF formula of distribution of funds to Schools or continue to use the existing Bromley Funding Formula (BFF).

8.8 The use of DSG was subject to consultation with the Schools Forum and also went to the Education, Children and Families Budget and Performance Monitoring Sub-Committee on the 17th January 2018. The Sub-Committee recommended the use of the NFF as the methodology to pass funding to Schools. At the time of writing this report, this is subject to the formal agreement of the Education, Children and Families Portfolio Holder.

8.9 Although it is difficult to predict, the 2018/19 Draft Budget assumes ongoing conversion of remaining maintained schools to academies. The grant allocation is recalculated on a quarterly basis, so the grant will reduce in-year as more schools convert.

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 26th February 2018 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 arm's length from the remainder of the Council's accounts.

10.2 The Council has a non-recurring collection fund surplus of £9.8m reflected in the '2016/17 Provisional Final Accounts' report to Executive on 20th June 2017. The surplus income is mainly due to good debt recovery levels despite the previous recessionary period, an increase in new properties in the borough and the successful impact of actions following the data matching exercise on single person discounts. The financial impact of the council tax support scheme was also lower than budgeted. A

sum of £2.0m will be allocated to the GLA and £7.8m to the Council. 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 2019/20.

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 2018/19 Draft Budget has been issued for consultation and includes proposals for an increase of 5.1% in existing GLA precept levels for 2018/19. The final GLA precept for 2018/19 is expected to be announced after the Assembly has considered the Mayor's draft consolidated budget on 22nd February 2018.

12. COUNCIL'S CAPITAL PROGRAMME, UTILISATION OF GENERAL RESERVES AND BUILDING MAINTENANCE

12.1 The latest estimated general fund (revenue) balance at 31st March 2018, as shown in the 'Budget Monitoring 2017/18' report to the 6th December 2017 meeting of Executive, is provided below:

	2017/18 Projected Outturn £Million
General Fund Balance as at 1st April 2017	20.0
Impact of net projected underspends reflected in the 2017/18 budget monitoring report	+0.3
Adjustment to Balances: Carry forwards (funded from underspends in 2016/17)	-0.6
Estimated General Fund Balance at 31st March 2018 (end of year)	19.7

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 2011/12 and Annual Capital Review 2012 to 2016' report to the February 2012 meeting of the Executive identified the long term financial implications of the capital programme. The report identified that abandoning the previously agreed strategy (fund rolling programmes through capital and reinstating general fund contribution to support the revenue budget of £3.5m) would have resulted in the Council's entire general reserves being utilised in the medium term. This illustrates the benefits of the strategy that Members have adopted since 2006/07. However, given the ongoing financial constraints and limited opportunities to reduce costs in the medium term, this approach was reconsidered to provide capital funding for investment in planned highways maintenance funded by capital receipts (details included in 'Highways Investment' report to Executive on 18th October 2016).

12.4 Alongside the introduction of the 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 Details of the Council's Building Maintenance Programme and associated costs will be reported to the next meeting of the Executive. No significant changes in the overall cost of the programme have been assumed in the 2018/19 Budget, at this stage.

13. CONSULTATION

13.1 Executive, at its meeting on 10th January 2018, requested that the 'Draft 2018/19 Budget and Update on Council's Financial Strategy 2019/20 to 2021/22' report proposals 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 26th February 2018 where the 2018/19 Budget and Council Tax will be agreed.

13.2 Two separate resident association meetings were held on 20th November 2017 and 28th November 2017 and a wider public meeting on 1st December 2017 relating to ' Talking About Our Borough' and 'Bromley Council 2018-19 and Beyond'. The outcome was reported to the previous meeting of the Executive.

13.3 A meeting has recently taken place with the Schools Forum to consider the Draft DSG 2018/19 Budget. Head Teachers and Governors were consulted on the transfer of funding from the Schools Block to the High Needs Block. Although the Schools Forum refused the request, the Council submitted a disapplication request to DfE which was subsequently approved. There was also consultation with the Schools Forum as to the methodology of funding Schools (detailed in paragraph 8). Following consultation, spending decisions will be taken by the Education, Children and Families Portfolio Holder following on from the recommendation to move towards the NFF at the Sub-Committee meeting on the 17th January 2018.

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.

14. POSITION BY DEPARTMENT – KEY ISSUES/RISKS

14.1 There remain risks arising from the future scale of budget savings required to address the budget gap as well as the cost pressures arising from new burdens, inflation 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 2018/19 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 2018/19

15.1 The GLA's 2018/19 Draft Budget was issued for consultation and includes proposals for an increase of 5.1% in existing GLA precept levels for 2018/19. The final GLA P recept for 2018/19 is expected to be announced after the Assembly has considered the Mayor's draft consolidated budget on 22nd February 2018.

15.2 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 £1,114.02 in 2017/18 and a further sum of £280.02 for the GLA precept (providing a total Band D equivalent Council Tax of £1,394.04).

15.3 For 2018/19 every £1m change in income or expenditure causes a 0.7% variation in the 'Bromley element' of the Council Tax. Each 1% council tax increase generates ongoing annual income of £1.4m.

15.4 As part of the Localism Act, any council tax increase of 3% or above in 2018/19 will trigger an automatic referendum of all registered electors in the borough. If the registered electors do not, by a majority, support the increase 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 The Adult Social Care Precept on council tax was originally set at 2% per annum for 2016/17 to 2019/20. The terms of the precept have changed and local authorities had the option to increase the precept by up to 3% per annum from 2017/18 which must not exceed a total of 6% over a three year period (2017/18 to 2019/20). The Council had an increase of 2% in 2017/18. The Council is able to levy a combined adult social care precept (maximum of 2%) and increase in council tax (maximum of 2.99%) of up to 4.99% without holding a referendum in 2018/19.

15.6 If the Council chose to agree a Bromley element 3.99% council tax increase, including the 2% Adult Social Care Precept, and the GLA Precept was increased by 5.1% there would be an overall combined council tax increase of around 4.2%.

15.7 The table below identifies the changes required to the draft 2018/19 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 2018/19 Draft Budget at this stage.

Increases in Council Tax Levels

Bromley Element % Increase in 2017/18 including Adult Social Care Precept	Additional Income 2018/19 £'m
Freeze	NIL
1.0	1.4
2.0	2.8
3.0	4.2
3.99*	5.6
4.99	7.0
6.0^	8.4

*Assumed in draft 2018/19 Budget. Adult social care precept of 2% equates to additional income of £2.8m 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 2018/19 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 2018/19, in February. Any final recommendations on council tax levels will need to take into account any changes to statutory requirements.

15.10 Bromley has the second lowest settlement funding per head of population in the whole of London in 2017/18. Despite this Bromley had the third 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 £90m since 2010/11 but it becomes more challenging to achieve further savings with a low cost base. Further details were reported to the previous meeting of the Executive.

15.11 As part of the Local Government Finance Settlement 2018/19, the Government provided indicative two year funding which assumed that the Council would raise funding from council tax increases and utilise the Adult Social Care Precept.

15.12 Members are asked to consider the impact of the latest draft budget on the level of Council Tax for 2018/19, having regard to all the above factors, including the Director of Finance comments in Appendix 4.

16. FUNDING SETTLEMENT

16.1 Details of the Council's representation ahead of the Autumn Budget 2017 was reported to the last meeting of the Executive – Appendix 9 of that report. Details of the Provisional Local Government Finance Settlement 2018/19 were also reported to that meeting and the final settlement is expected by mid- February. The Council previously secured non–recurring transitional grant funding of £4.2m in 2016/17 and 2017/18 in recognition of the funding issues faced by the Council (second highest in London).

16.2 The Council continues to seek 'fairer funding' from Government. The Leader, Resources Portfolio Holder, Chief Executive and Director of Finance met with Sajid Javid, Secretary of State, DCLG on 20th December 2017 to seek a fairer funding deal for Bromley and its residents. The Council's consultation response to the Provisional Local Government Finance Settlement 2018/19 and the letter to Sajid Javid are included in Appendix 5.

16.3 A significant number of points have been raised including, for example, concerns relating 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 previously proposed should continue to be distributed using the national adult social care formula.

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 10th January 2018 and the draft 2018/19 Budget and future years' forecasts reflect the impact of this approach.

17.2 Although the London Business Rate Pilot provides additional income in 2018/19, there is uncertainty on the impact of the full devolution of business rates and the outcome of the Government's 'Fairer Funding' review which may result in new responsibilities for the Council and associated risks. The changes are not expected to be implemented until at least 2020/21 whilst austerity for local government is expected to continue beyond that period and a possible future recession provides significant financial risks. The continuation of long term financial planning as part of the Medium Term Financial Strategy remains essential to ensure that any future service changes are managed effectively.

17.3 The Council will continue to seek a fairer financial settlement on behalf of the residents of the Borough and the report has referred to some of the work undertaken in the current financial year. The contribution of local MPs has also assisted in this arrangement.

17.4 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 meet inflationary costs on social care and provide funding to meet increasing social care costs, demographic cost pressures and to meet the ongoing "budget gap". As part of the Provisional Local Government Finance Settlement 2018/19, the Government's funding reductions assume that Councils could raise alternative funding, to partly offset grant reductions, from council tax increases and utilisation of the Adult Social Care precept. The financial forecast reflects that approach.

17.5 The Budget Strategy has to be set within the context of a reducing resource base, with Government funding reductions likely to continue 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.

17.6 The Council has had to take significant action to reduce the cost base while protecting priority front line services and providing sustainable longer term solutions. Council Tax has been kept low compared with other Councils. A combination of front loading of savings in previous years, pro-actively generating investment income and prudent financial management have provided an opportunity to provide a balanced budget for next year with potential opportunity to balance the budget in 2019/20 assuming any further cost pressures are contained and relentless cost control is undertaken. To illustrate the benefit of the investment approach the Council has undertaken, budgeted income totaling £14.2m from a combination of treasury management income and rents from investment properties is expected to be realised. 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. The Council will continue to explore using low cost treasury management monies to support future joint venture opportunities with the aim to generate investment returns over a 3 to 5 year period. This could include, for example, funding of joint venture opportunities to support land disposal/key investments. The Council recently undertook secure lending to a developer

which generates interest income of 6% per annum and also supports a homelessness initiative. The Council remains debt free and has resources to encourage and invest in innovation and new types of investment for the future.

17.7 There will be significant challenges as the Council is a low cost authority and the position will need to be regularly reviewed particularly as there are risks relating to recent increases in inflation, compared with the previous year's forecast, and further cost pressures/new burdens. Apart from early identification of options to address the future years budget gap (2020/21 and beyond) including any significant transformation and income generating opportunities, it remains essential that Chief Officers identify mitigating action to address any in year cost pressures/new burdens to remain within their 'cash envelope'.

17.8 Stewardship and delivering sustainable finances are increasingly important whilst the Government's austerity measures continue. It is important to consider actions now that address the "budget gap" in the medium term.

17.9 The council has previously 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. IMPACT ON VULNERABLE ADULTS WITH CHILDREN

18.1 The Draft 2018/19 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.

19. POLICY IMPLICATIONS

19.1 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.

19.2 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.

20. PERSONNEL IMPLICATIONS

20.1 Staff, departmental and trade union representatives will be consulted individually and collectively on any adverse staffing implications arising from the Draft 2018/19 Budget. Managers have also been asked to encourage and facilitate staff involvement in budget and service planning.

21. LEGAL IMPLICATIONS

21.1 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.

21.2 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.

21.3 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.

21.4 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 31st 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.

21.5 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.

21.6 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.

21.7 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.

21.8 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.

21.9 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.

Background documents	Treasury Management – Quarter 3 Performance 2017/18, Resources Portfolio Holder and Council, 1st February 2018 and 26th February 2018 Treasury Management – Annual Investment Strategy 2018/19, Resources Portfolio Holder and Council, 1st February 2018 and 26th February 2018 Capital Programme Monitoring Q3 2017/18 and Capital Strategy 2018 to 2022, Executive and Council, 7th February 2018 and 26th February 2018 Contingency Drawdown Homelessness and Temporary Accommodation Pressures, Executive, 10th January 2018 Budget Monitoring 2017/18, Executive, 6th December 2017 Improved Better Care Fund, Executive, 10th October 2017 London Business Rate Pilot, Executive 13th September 2017 Locally Administered Business Rate Relief Scheme, 19th July 2017 2016/17 Provisional Final Accounts. Executive, 20th June 2017 Provision of Temporary Accommodation, 14th March 2017 2017/18 Council Tax, Executive 8th February 2017 Highways Investment, Executive, 18th October 2016 Government's Four Year Funding Offer, Executive, 14th September 2016
Financial Considerations	Covered within overall report

Appendix 1

DRAFT 2018/19 BUDGET AND FINANCIAL FORECAST 2018/19 TO 2021/22

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Bromley's Budget Requirement in 2017/18 (before funding from Formula Grant) @	203,282	203,282	203,282	203,282	203,282
Income from investment properties #	-12,745	-12,745	-12,745	-12,745	-12,745
Formula Grant and Business Rate Share	-47,360	-47,360	-47,360	-47,360	-47,360
	143,177	143,177	143,177	143,177	143,177
Grant loss					
Reduction in Government Funding - core grant		5,400	9,000	12,580	16,400
Fall out of 2017/18 Adult Social Care Grant		1,196	1,196	1,196	1,196
Impact of National Formula Funding resulting in funding reductions for SEN placements		1,000	2,000	2,000	2,000
General reductions in government funding		500	1,000	1,500	1,500
Reductions in Government Funding - Public Health		410	820	1,125	1,125
Total Grant Loss		**8,506**	**14,016**	**18,401**	**22,221**
Cost Pressures					
Increased costs (3.5% 2018/19 and 2019/20 then 2.7% per annum) plus impact of Living Wage		9,099	19,058	27,493	34,426
Welfare reforms and impact on homelessness		1,500	3,500	5,000	7,000
Universal credit roll out - consequential impact on claimant fault overpayment recoveries		500	750	750	750
Homelessness Reduction Act		750	750	750	750
Potential additional costs following retendering of combined Environmental Services contract and other key contrac		0	2,000	4,000	4,000
Adults Social Care					
- Full year effect of Adult Social Care spend not funded by IBCF below		394	1,394	1,394	1,394
- Efficiency savings to be identified (retendering savings of £250k already identified)		-394	-394	-394	-394
Childrens Social Care					
- High inflationary pressures relating to Pan London Agreement and other children services		400	400	400	400
- Full year effect to reflect existing budget monitoring position		718	718	718	718
		12,967	28,176	40,111	49,044
Real Changes and other Variations (reported to Executive on 10th January 2018)					
Environment		626	1,100	1,631	2,227
Public Protection and Safety		310	149	60	60
Renewal and Recreation		392	289	117	-1
Other (mainly council wide)		637	55	174	174
Sub total - real changes and variations		1,965	1,593	1,982	2,460
Total Additional Costs		**14,932**	**29,769**	**42,093**	**51,504**
Income/Savings					
Savings from office accommodation review		0	-620	-620	-620
Acquisition of residential properties to accommodate the homeless (Mears)		-958	-1,940	-1,940	-1,940
Additional Income Opportunity (Amey)		-500	-700	-945	-945
Additional income from business rate share to reflect new developments in borough		0	-600	-900	-900
Impact of London pilot of business rates (as approved by Council 25/9/17) - one year only		-2,900	0	0	0
Interest on balances - additional income		-600	-200	-100	0
Release general provision in contingency for significant uncertainty/variables		-2,000	-2,000	-2,000	-2,000
Savings from recommissioning/ retendering of various contracts		-1,059	-1,127	-1,148	-1,172
Fall out of one off commissioning programme funding		-500	-500	-500	-500
- Savings from Children's Social Care linked to invest to save funding		0	-250	-750	-1,000
Total Income/Savings		**-8,517**	**-7,937**	**-8,903**	**-9,077**
Other Changes					
New Homelessness Support Grant }		-2,360	-2,360	-2,360	-2,360
Reduction in Housing Benefit funding }		2,360	2,360	2,360	2,360
Discretionary rate relief scheme - government funding		-682	-281	-40	0
Discretionary rate relief scheme - support to businesses		682	281	40	0
New Homes Bonus (funding towards revenue budget -£3.84m assumed in 2017/18 Budget)		-1,916	840	2,840	3,840
Total Other Changes		**-1,916**	**840**	**2,840**	**3,840**
Improved Better Care Fund					
Improved Better Care Fund - recurring funding		-2,000	-4,600	-4,600	-4,600
Improved Better Care Fund - non recurring funding		-3,363	-1,677	0	0
Contribution towards cost of full year effect of Adult Social Care spend in 2017/18		2,000	1,000	1,000	1,000
Additional spend previously approved by Executive 10th October 2017		1,490	1,390	1,390	1,390
Contribution to growth/cost pressures on Adult Social Care		1,000	1,500	2,000	2,500
Uncommitted monies remaining		873	2,387	210	-290
Total Improved Better Care Fund		**0**	**0**	**0**	**0**
Council Tax					
Assumed increase in council tax base number of properties		**-1,650**	**-2,300**	**-2,950**	**-3,600**
		154,532	177,565	194,658	208,065
2017/18 Council Tax Income	-143,177	-143,177	-143,177	-143,177	-143,177
Increase in council tax (assume 1.99% per annum) *		-2,849	-5,812	-8,893	-12,096
Impact of Adult Social Care Precept (assume 2% per annum) *		-2,864	-5,827	-8,908	-12,111
Underlying Budget Gap		**5,642**	**22,749**	**33,680**	**40,681**
Use of Non Recurring Collection Fund Surplus to support revenue budget					
Collection Fund surplus 2014/15 set aside as one off support towards meeting the funding shortfall in 2018/19		-4,912	0	0	0
Collection Fund Surplus 2015/16 (£6,401k carry forward to 2018/19 and 2019/20)		-730	-5,671	0	0
Collection Fund Surplus 2016/17		-7,852	0	0	0
Collection Fund Surplus 2016/17 - set aside to support 2019/20 Budget		7,852	-7,852	0	0
Projection of future year collection fund surplus		0	-4,000	-3,000	-2,000
		-5,642	**-17,523**	**-3,000**	**-2,000**
Revised Budget Gap		**0**	**5,226**	**30,680**	**38,681**

* 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.

\# Allowing for changes incorporated in the 2018/19 Budget, this sum will increase from £12.7m to £14.2m

Appendix 2

SUMMARY OF DRAFT 2018/19 REVENUE BUDGET - PORTFOLIO

	2017/18 Final Budget £'000	**Portfolio/Item**		2018/19 Draft Budget £'000		2018/19 Band "D" Equivalent £
	84,995	Education		82,436		634.11
Cr	80,458	Less costs funded through Dedicated Schools Grant	Cr	76,696	Cr	589.95
	4,537	Sub total		5,740		44.16
	32,822	Childrens Services		34,390		264.53
	68,272	Care Services		72,580		558.29
	29,179	Environment		30,628		235.59
	1,963	Public Protection and Safety		2,290		17.61
	7,693	Renewal and Recreation		8,508		65.44
	31,579	Resources		32,565		250.49
	3,831	Non Distributed Costs & Corporate & Democratic Core		3,907		30.05
	179,876	Total Controllable Budgets		190,608		1,466.16
	11,244	Total Non Controllable Budgets		12,056		92.74
Cr	729	Total Excluded Recharges	Cr	759	Cr	5.84
	190,391	Portfolio Total		201,905		1,553.06
Cr	9,901	Reversal of Net Capital Charges	Cr	10,646	Cr	81.89
Cr	2,891	Interest on General Fund Balances	Cr	3,491	Cr	26.85
	2,256	New Homes Bonus - Support for Revenue Budget	Cr	2,222	Cr	17.09
	2,552	Contribution to Transition Fund Reserve		-		-
	6,401	Utilisation of Prior Year Collection Fund Surplus/Set Aside		2,210		17.00
	14,957	Central Contingency Sum		14,857		114.28
		Levies				
	461	- Local Pension Partnership*		484		3.72
	281	- London Boroughs Grants Committee		248		1.91
	241	- Environment Agency *		253		1.95
	338	- Lee Valley Regional Park *		355		2.73
	205,086	Sub Total		203,953		1,568.82
Cr	47,360	Revenue Support Grant and Business Rate Retention	Cr	41,960	Cr	322.76
Cr	2,052	Transition Grant		-		-
Cr	6,401	Collection Fund Surplus	Cr	7,852	Cr	60.40
Cr	6,096	New Homes Bonus	Cr	3,534	Cr	27.18
	143,177	Bromley's Requirement (excluding GLA)		150,607		1,158.48

* Final allocations awaited

** There may be further amendments to reflect any changes to the Portfolio structure for 2018/19

Appendix 3

2018/19 CENTRAL CONTINGENCY SUM		£'000
Renewal and Recreation		
Planning appeals - changes in legislation		60
Grants included within Central Contingency Sum		
Tackling Troubled Families Grant Expenditure		845
Tackling Troubled Families Grant Income	Cr	845
Improved Better Care Fund - uncommitted monies		873
Unnaccompanied Asylum Seeker Grant Expenditure		231
Unnaccompanied Asylum Seeker Grant Income	Cr	231
General		
Provision for Unallocated Inflation		4,888
Increase in Cost of homelessness/impact of welfare reforms		3,396
General provision for risk/uncertainty		2,219
Provision for risk/uncertainty relating to volume and cost pressure		2,182
Impact of Chancellor's Summer Budget 2015 on future costs		1,215
Homelessness Reduction Act - net of government funding		750
Growth for waste services		587
Cost of Local Elections		500
Universal credit roll out - impact on claimant fault overpayment recoveries		500
Further reduction to government funding		500
Retained Welfare Fund		450
Deprivation of Liberty		118
Other variations		19
Additional income opportunity (Amey)	Cr	500
London Pilot Business Rate Pool	Cr	2,900
		14,857

It is important to note that the 2018/19 Central Contingency sum includes significant costs not allocated to Portfolio budgets as this stage. Therefore there will be further changes to the Central Contingency to reflect allocations to individual Portfolio budgets prior to publication of the Financial Control Budget.

Appendix 4

LEVEL AND USE OF RESERVES AND ROBUSTNESS OF THE 2018/19 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 £19.7 million as at 31st March 2018 (as reported to Executive on 6th December 2017), 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 had 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 £19.7m. 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 an opportunity to reduce overall costs in the medium term, Executive on 18th October 2016 approved capital funding for investment in planned highways maintenance to be funded from capital receipts.

2.5 The most significant gain to balances was following the housing transfer to Broomleigh in 1992 (now part of Clarion). 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 year which should enable the current level of balances to be retained. This position is expected to significantly change from 2019/20 and will be dependent on the Council's ability to realise future sales/disposals to generate capital receipts to avoid seeking funding from the Council's revenue budget or reserves.

2.7 If the existing general reserves are released now to fund continuing service initiatives and/or significantly reduce council tax 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, the Director of Finance continues to recommend 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' with higher amounts being retained for specific purposes;

(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 general reserves in excess of the basic level on investments to increase the efficiency of the Council, provide income and reduce the cost base.

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 options need to be explored to ensure that the recommended minimum sum of general reserves are retained to provide adequate flexibility during the financial forecast period. 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 the appropriate use of reserves for specific purposes and the levels at which these should be set. Further details on the utilisation of earmarked reserves together with general reserves are provided in section 2.1. The current specific (earmarked) reserves and their estimated uses are:

Description	Balance at 31/3/17	Estimated Net Movement	Balance at 31/3/18	Estimated Movement	Estimated Balance at 31/3/19
	£'000	£'000	£'000	£'000	£'000
EARMARKED BALANCES					
LPSA/LAA Reward Grant Investment Fund	**231**	-22	**209**	-45	**164**
Technology Fund	**1,731**	-79	**1,652**	-73	**1,579**
Town Centre Improvement Fund (LABGI)	**55**	-	**55**	-55	**-**
Transformation Fund	**1,163**	-400	**763**	-397	**366**
Investment to Community (Resources)	**530**	-53	**477**	-	**477**
Works to Property	**100**	-	**100**	-	**100**
Building Control Charging Account	**182**	-4	**178**	-4	**174**
Government Grants (c/fwd from previous years)	**1,811**	1,816	**3,627**	-2,481	**1,146**
Invest to Save Fund	**14,777**	983	**15,760**	979	**16,739**
One off Member Initiatives	**1,332**	-279	**1,053**	-100	**953**
Infrastructure Investment Fund	**2,000**	-132	**1,868**	-257	**1,611**
Commissioning Authority Programme	**55**	304	**359**	-255	**104**
Health & Social Care Initiatives – Promise Programme	**3,953**	-3,953	**-**	-	**-**
Housing Strategy Trading Account	**25**	-	**25**	-	**25**
Community Right to Bid & Challenge	**46**	-	**46**	-	**46**
Investment Fund	**4,621**	-2,757	**1,864**	-1,864	**-**
Winter Pressures Reserve	**2,010**	**-**	**2,010**	**-**	**2,010**
Refurbishment of War Memorials	**13**	-3	**10**	**-**	**10**
Key Health & Social Care Initiatives	**1,700**	-1,047	**653**	**-**	**653**
Integration of Health & Social Care Initiatives	**1,614**	-800	**814**	-700	**114**
Collection Fund Surplus Set Aside	**4,912**	6,401	**11,313**	-5,642	**5,671**
Healthy Bromley Fund	**3,815**	**-**	**3,815**	**-**	**3,815**
Glaxo Wellcome Endowment	**154**	-13	**141**	-7	**134**
Cheyne woods & Cyphers Gate	**163**	-10	**153**	-	**153**
Public Halls Fund	**7**	-	**7**	-	**7**
Future Repairs of High Street Properties	**31**	12	**43**	12	**55**
Parallel Fund	**2,700**	181	**2,881**	-	**2,881**
Growth Fund	**22,425**	-1,089	**21,336**	-2,900	**18,436**
Health & Social Care Integrated Commissioning Fund	**4,550**	**-**	**4,550**	**-**	**4,550**
Financial Planning & Risk Reserve	**5,000**	**-**	**5,000**	**-**	**5,000**
Bromley Welfare Fund	**970**	-110	**860**	-110	**750**
Payment in Lieu Reserve for Temporary Accommodation	**85**	26	**111**	26	**137**
Business Rate Risk Reserve	**4,200**	**-**	**4,200**	**-**	**4,200**
One Off Expenditure 2016/17 (inc. TFM contract)	**152**	-55	**97**	**-**	**97**
Crystal Palace Park Improvements	**145**	-91	**54**	-25	**29**
Various Joint Schemes and Pump Priming Investments	**5,006**	-1,500	**3,506**	-1,000	**2,506**
Transition Fund	**568**	2,052	**2,620**	-	**2,620**
Children's Social Care Transition Fund	**1,500**	-750	**750**	-750	**-**
Environmental Initiatives	**500**	-110	**390**	-100	**290**
Planning/Planning Enforcement	**250**	-75	**175**	-175	**-**
Apprenticeship Scheme	**200**	-32	**168**	-121	**47**
Civic Centre Development Strategy	**257**	**-**	**257**	-100	**157**
CSC Recruitment & Retention	**855**	-400	**455**	-455	**-**
Future Professional Advice for Commissioning	**147**	**-**	**147**	**-**50	**97**
New Homes Bonus Support for Revenue Budget	**-**	2,256	**2,256**	-2,256	**-**
Sub Total	**96,541**	**-267**	**96,808**	**18,905**	**77,903**

PROVISIONS					
Insurance Fund	**3,373**	100	**3,473**	200	**3,673**
OTHER					
School Budget Share Funds	**2,621**	-699	**1,922**	-1,922	**-**
Total Reserves	**102,535**	**-332**	**102,203**	**-20,627**	**81,576**
New Reserves Subject to Final Approval					
Set Aside of Prior Year Collection Fund Surplus	**-**	-	**-**	7,852	**7,852**
Total Estimated Reserves	**102,535**	**-332**	**102,203**	**-12,775**	**89,428**

3.2 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 six 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.

3.3 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 future transformation/integration of health and social care and to contribute towards the financial sustainability of Bromley CCG.

3.4 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 any deficit on the pension fund needing to be made good from taxation in one year.

3.5 The outcome of the actuarial valuation as at 31/3/16 was reported to Pensions Investment Sub Committee on 31st January 2017 and General Purposes and Licensing Committee on 6th February 2017. The Council's pension fund was 91% funded with a total deficit of £71m (including other non-council employees) – this figure reduces to £40m if non-council employees are excluded. The triennial actuarial valuation impacted on the budget from 2017/18 to 2019/20 and the next valuation will impact on the period 2020/21 to 2022/23.

4. Budget Assumptions

4.1 Treatment of Inflation and Interest Rates

4.1.1 Despite the recent increase in the Bank of England base rate from 0.25% to 0.50%, there has been very little impact on interest income from lending to banks. This is partly due to banks continuing to have access to lending from central government at very low rates as well as the strengthening of 'balance sheets' reducing the need to borrow. In addition, the utilisation of the investment and growth fund as well as the Highways Investment Fund, have reduced the resources available for treasury management investment. However, the treasury management strategy has been revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks. The net impact is additional income of £800k in 2018/19, compared with the 2017/18 Budget. Without the alternative investment strategy, the income would have fallen in the draft 2018/19 Budget to reflect a reduction in treasury management resources available. The contribution of higher risk and longer term investments within Treasury Management have contributed towards the Council being in the top decile performance (top 10%) against the local authority benchmark group. Further details are included in the 'Treasury Management – Quarter 3 Performance 2017/18' and 'Treasury Management – Annual Investment Strategy 2018/19' reports to Executive and Resources PDS Committee on 1st February 2018.

4.1.2 A general allowance of 3.5% has been built into the forecast for 2018/19 reducing to 2.7% per annum from 2020/21 for contractual running expenses. This compares with current general RPIX increase of 4.2% (Dec. '17).

4.1.3 The 2018/19 Budget includes the proposed pay award of 2% for Council staff announced by the Resources Portfolio Holder at the last meeting of the Executive. Further details are being reported to General Purposes and Licensing Committee on 6th February 2018.

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 2017/18 and Capital Strategy 2018 to 2022' 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, the impact of welfare reforms, adults and children's social care. The draft 2018/19 Budget 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. 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. The need to meet budget savings has reduced the frequency of budget monitoring. The previous introduction of cash targets for service departments led to greater realism in the projection and management of the volume of service activity. Service overspends against the budget had been generally contained in overall terms in previous years although projected service overspends were identified in 2016/17 and the future years position needs to be closely monitored and reviewed, with early corrective action being taken where possible. Balancing the budget will require very positive action if the council is not to overspend in 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. 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. Any overspending should require compensating savings to be identified.

4.6.2 The Council will need to continue to adopt a corporate 'One Council' approach in addressing budget pressures and identifying saving options (details reported to last meeting of the Executive).

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 £2.5 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 2016/17', considered by the Resources Portfolio Holder at the meeting of the Executive and Resources PDS Committee on 11th October 2017, 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 £5.2m in 2019/20 rising to £38.7m per annum in 2021/22, 'balance sheet' liabilities 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.

4.11.2 The scale of the medium term "budget gap", coupled with the significant financial uncertainty in the ongoing austerity period makes it important to maintain 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.

4.12 Council's Investment Income contributing to supporting key services

4.12.1 The Council's investment income of £14.2m, assumed in the 2018/19 Budget, is shown below:

	£'m
Investment properties including Glades, Walnuts, shopping parades etc.	4.2
Other rental income	0.8
Investment properties funded from the Council's growth fund/investment fund	5.7
Treasury Management Income	3.5
Total investment income	**14.2**

4.12.2 Historically the Council has acquired investment properties. More recently, since 2011/12 the Council created an investment and growth fund. Background on the use of these funds were reported to the previous meeting of the Executive. At its meeting on 19th July 2017, Executive approved a new property investment criteria:

- Provides a net investment return of 5%;
- Provides a suitable mix of portfolio to mitigate against risks of "all eggs in one basket" i.e. variation in investment portfolio to cover void risk;
- Ability to sell the asset at a future date within a reasonable turnaround period of less than one year;
- Mitigates against problematic tenancy risks e.g. secured tenancy etc ;
- Mitigates against significant repair liabilities which have a downward impact on the investment return i.e. seek full repairing leases from tenants;

- Mitigate against capital value risk – purchase in places where capital values are unlikely to fall in the longer term;
- That opportunities should be explored in economic growth areas as well as the South East. This would be the cities of Manchester and Leeds together with other areas such as Cardiff, Bristol and the Midlands;
- That the lot size should be in excess of £5m;
- That multi-let investment opportunities which provide suitable income protection and covenant should be considered taking into account management costs.

4.12.3 The Council has used existing resources in acquiring investment properties and has not utilised the option of borrowing. A combination of ensuring the criteria above is met, decisions by Executive taking into account the professional advice Cushman and Wakefield and not utilising borrowing to fund the acquisitions helps ensure that the primary driver of sustainable income is met which is critical to support key services. The Council being prepared to retain the investment assets through any future recession period significantly reduces the longer term capital risk of the investment.

4.12.4 Details of the approach to treasury management is being reported to Executive and Resources PDS meeting on 1st February 2018. The treasury management strategy has been revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks. Without the alternative investment strategy, the income would have fallen in the draft 2018/19 Budget to reflect a reduction in treasury management resources available. The contribution of higher risk and longer term investments within Treasury Management have contributed towards the Council being in the top decile performance (top 10%) against the local authority benchmark group. The approach to addressing Security, Liquidity and Yield is addressed in that report. The strategy of continuing to generate additional investment income will provide estimated income of £14.2m which provides funding for key services thus enabling a corresponding reduction in the Council's budget gap.

Appendix 5

Councillor Colin Smith
LEADER OF THE COUNCIL
LONDON BOROUGH OF BROMLEY

The Rt Hon Sajid Javid
Secretary of State Communities &
Local Government
Fry Building
2 Marsham Street
London SW1P 4DF

8th January 2018

LB OF BROMLEY – FAIRER SETTELEMENT FOR OUR RESIDENTS

Thank you for allowing myself, my Resources Portfolio Holder, Chief Executive and the Director of Finance to meet with you on 20th December 2017. The recent changes you have announced as part of the Provisional Local Government Finance Settlement 2018/19 give some positive recognition of the challenges facing local government which includes, for example, added flexibility in considering council tax levels and the planned consultation on 'fair and affordable' options for authorities facing negative revenue support grant funding – Bromley is facing a negative revenue support grant allocation of £2.3m in 2019/20.

Your comments about the Improved Better Care Fund being resources available for local authorities to support social care is reassuring. You mentioned opportunities around the Housing Infrastructure Fund and the Council has submitted a bid for a key housing scheme.

I would like to provide some further context and in particular cover some key issues that we would wish to be addressed.

In 2017/18 Bromley had the 5th lowest level of settlement funding in the whole of London despite having the 7th highest population (excluding City of London). We are the largest London Borough in terms of geographical size, have one of the highest proportions of older people and the largest road network. The associated cost implications are not reflected in our settlement funding which is the 2nd lowest per head of population in the whole of London.

Bromley has managed its finances extremely efficiently despite having a low level of government funding and has managed to maintain a low council tax. Bromley has created a low cost base through many pioneering measures taken including outsourcing on a large scale, transfer of housing stock, creation of leisure trust and relentless cost control. However this provides a further

challenge as our scope to achieve savings through efficiencies is significantly reduced compared with other high cost authorities.

Bromley has supported Government policy towards meeting austerity, seeking to generate economic growth through investing (contribution to UK PLC) and keeping public sector costs low whilst driving out more efficiency. We also have the highest proportion of schools converted to academies.

Despite being low cost Bromley has experienced one of the highest proportions of funding reductions since 2011/12. Although in cash terms it may be lower than various other authorities the Council is immediately disadvantaged by having a low level of funding available in the first place. There was a formula to allocate monies up to 2013/14 which has effectively been "fixed" to reflect the current funding regime. Our concern is that the low level of funding was not addressed at the time of this change. The Council has generated savings of over £90m since 2010/11. However, given that Bromley has taken the "low and middle hanging fruit", we have minimal scope to find further significant efficiencies but are not being incentivized for keeping costs low – in fact starting from a low cost base has made it more difficult to find savings.

Bromley's core funding has been cut higher than the London and England average since 2010/11. It will have reduced by 75% compared with 63% (London and England) in real terms over the course of the decade. If the Council received the average level of grant funding for London boroughs, our income would increase by £65m.

We are seeking a fair level of funding for Bromley which provides recognition that we keep our costs low, reflects fairly the impact of a high proportion of elderly population and recognises the true financial impact of essential highways maintenance and repair in a borough with a large road network.

Key asks for a Fair Funding deal are:

- Fair Funding should have a mechanism to reward more efficient authorities e.g. financial incentive in system;
- Fair Funding needs to recognise higher London costs which impacts on service costs and the financial impact of need;
- 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 a low cost baseline should not face a higher proportion of cuts to funding as part of ongoing austerity;
- Need to avoid situation where low council tax authorities do not need to increase council tax as they have more generous settlement than other comparable authorities;
- Fair Funding should recognise London cost pressures relating to homelessness (for Bromley a further £7m per annum by 2021/22) – pressures mainly relating to London and a few other areas;
- Social Care responsibilities (Improved Better Care Fund) should be determined by adult social care formula e.g. Bromley stands to lose up to £3m of additional funding from 2019/20;

- 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 rest of London (12.1%). Using GLA central estimates, between 2017 and 2037 over 65's are expected to increase by 44.4% and over 90's by 123.8% with an overall population increase of 18.8% during that period;
- Benefits data which is used in determining needs assessment does not reflect low level of take up (can it be adjusted to reflect lower take up compared with rest of country?) or the impact of higher housing costs in London. Measuring deprivation levels after housing costs gives a more realistic assessment of disposable income;
- The relative size of the Needs and Resource amounts are ultimately set by DCLG on the basis of judgement – can some of the unique factors for Bromley be reflected in this to ensure low cost efficient authorities are not penalised?

In the meantime the Council is left with inequities of funding and this was partly recognised in the Transitional Grant payable for 2016/17 and 2017/18 which was welcomed. This funding recognised some of the issues that Bromley is facing. Whilst recognising that you will review the funding for authorities that face negative revenue support grant, the delay in the full devolution of business rates until 2020/21 and subsequent impact on "Fairer Funding" implementation, the Council is seeking a continuation of this transitional funding for at least 2018/19 and 2019/20, particularly as the Council moves towards negative Revenue Support Grant.

It is important to ensure that any new burdens are fully assessed and funded on an ongoing basis. Some examples of new burdens not fully funded include the impact of the national living wage, increase in national insurance contributions following end of contracted out contributions, no recourse to public funds, auto enrolment and lifting of the public sector pay cap.

A combination of core grant reductions combined with new burdens not fully funded and increasing demand for services , immense pressure on adult and children's social care costs, rising population levels, the significant impact of homelessness pressures and increasing inflation levels means it is becoming increasingly difficult to sustain the scale of funding reductions imposed on us. Apart from the need for a fairer level of funding, the Council requests the removal of the referendum limit for council tax increases and the continuation of the Adult Social Care precept beyond 2019/20 to provide greater recognition of local accountability. There should be further flexibility to extend the precept to fund other key pressure areas such as Children's Social Care. It is essential that we are given local flexibility to determine how services are funded particularly as we need to balance service priorities and council tax levels.

We would request that the ring fencing of grant funding is changed to enable greater flexibility to ensure resources are allocated to reflect local needs and still meet national requirements. This includes education funding and various other grant funding. The national formula funding for education will reduce flexibility of funding for special educational need placements and results in potential education costs being met by the council taxpayer rather than through schools funding. The Council stands to lose up to £2m per annum funding within three years. This is coupled with the anomaly where the council tax payer is required to fund special educational need transport costs of £4.6m per annum which should logically be funded through education funding as it is part of the overall SEN package of costs.

The Council welcomes the Government's commitment to devolution and, as a Community Leader, is well placed to enable more effective use of public monies. With the right governance framework enabled by the Government we could contribute towards ensuring that health monies are better spent at a local level given the close links with social care services which would ultimately contribute towards an effective national solution for health and social care. We have met with Rt

Hon. Steve Brine, Parliamentary Under Secretary (Department of Health) on 6th December 2017 as a step towards finding a better joint solution which also assists a national issue.

In summary, we are seeking the opportunity to have our funding addressed in the Fair Funding review, continuation of the Transitional Grant in 2018/19 and beyond, funding for new burdens, greater flexibility in use of grant funding, greater local flexibility in considering council tax levels with a continuation of the option of the Adult Social Care Precept and opportunities to be empowered to manage more effectively health resources.

Both Members and Officers would be keen to work with the Government to help find positive solutions that work for our residents and taxpayers to meet the necessary austerity measures and future service priorities.

Yours sincerely

Cllr Colin Smith

cc: Bromley MPs

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Roger Palmer,
Department for Communities and Local Government,
2nd floor, Fry Building,
2 Marsham Street,
London, SW1P 4DF.

16th January 2018

LGFsettlement@communities.gsi.gov.uk

Dear Mr. Palmer

Provisional 2018/19 Local Government Finance Settlement

This letter sets out the London Borough of Bromley's formal response to the provisional settlement consultation.

We would ask that this letter be considered in conjunction with our response to the 2018/19 Local Government Finance Settlement: Technical Consultation Paper which, as well as responding to the specific consultation questions, provides some context and detailed background about matters specific to Bromley. Rather than repeat these points, I have attached a copy of the response for reference.

Local government continues to face a disproportionate level of cuts in direct funding compared to other parts of the public sector. We are disappointed that the provisional settlement provides no new funding for local government, particularly in light of the significant and increasing pressures on our services. The huge funding pressures on adult social care, children's services and homelessness cannot be under-estimated and both immediate and longer term funding solutions are required.

It is also notable that, despite repeated representations on this point, no funding has been made available to meet the cost of new burdens including the impact of the national living wage, no recourse to public funds, automatic enrolment, lifting of the public sector pay cap, the ending of contracting out and the indexation and equalisation of guaranteed minimum pensions. In addition, the full financial implications of the Homelessness Reduction Act 2017 have not been addressed and remains only partly funded.

In Bromley, despite having made savings of over £90m per annum since 2010/11, we find ourselves having to identify further savings estimated to be around £40m per annum over the next four years. This is due to a combination of severe funding cuts, increasing cost pressures (including inflation and new burdens) and rising demand for our services. This is clearly not sustainable in the longer term.

Given the fact that we face further significant cuts in government funding, we are disappointed that the transition grant payable for 2016/17 and 2017/18 has not been extended. This funding recognised some of the issues we are facing and we would urge for it to be re-instated as part of the final settlement.

We welcome the decision that proposed further changes to New Homes Bonus (NHB) did not go ahead but remain concerned about the continued reduction in this important income stream. As we have previously stated, we do not support the reforms to NHB which significantly reduce the incentive for growth and fail to recognise the additional ongoing costs associated with increased housing development.

Whilst the option to increase council tax levels by a further 1% does provide some additional flexibility, this is insufficient to meet the ongoing financial pressures we are facing. Bromley does not support the principle of capping council tax increases and we maintain the view that referendum principles should be removed completely. The restriction on utilising the precept for Adult Social Care should also be removed so that we are given local flexibility to determine how our services are funded.

For 2018/19 we are participating in the London Business Rates pilot. We are, however, concerned about reference to a 75% Business Rates Retention from 2020-21 as opposed to the previously committed 100%. Some early clarification is required about how this will affect those authorities, like Bromley, who are already piloting 100% retention.

We look forward to contributing to the Fair Funding Review: A Review of Relative Needs and Resources which was published alongside the provisional settlement. It is imperative that the review is comprehensive, involving full consultation with local government, but also that there is clarity and transparency in setting out the full impact of any proposals. It is also critical that the final funding baselines are published early to support financial planning beyond 2019/20. We appreciated the opportunity for the Leader of the Council, Resources Portfolio Holder, Chief Executive and myself to meet with the Secretary of State for Communities and Local Government in December 2017 and have provided further background information on the issues we are facing and our 'key asks' for a Fair Funding deal.

Bromley's response to the specific consultation questions is appended.

Yours sincerely

Peter Turner
Director of Finance.

Consultation Questions

Question 1: Do you agree with the methodology of Revenue Support Grant in 2018-19?

Whilst we agree that this provides consistency with the information provided for the 2016-17 and 2017-18 SFA, we do not agree with the methodology and refer to concerns about overall funding levels.

Allocating changes to the level of Revenue Support Grant on the basis of Settlement Core Funding unfairly penalises authorities like Bromley who, whilst having a larger tax base, have worked tirelessly to keep our council tax low. The ability to raise council tax must not be a factor in the allocation of funding to individual authorities. We strongly argue that there needs to be an adjustment to the baseline position of historic underfunding that Bromley has received.

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

We do not agree with the proposed methodology for funding New Homes Bonus in 2018-19. Additional funding is being top-sliced from RSG to meet the reduction in Government's contribution. It is also unclear which departmental budgets are used to fund NHB and how the savings from reduced contributions are reconciled.

We are also disappointed that previously announced plans to reduce the number of years for which NHB is awarded have been implemented.

Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?

We do not agree with additional funding provided through the Rural Services Delivery Grant which benefits rural areas only.

If the financial pressures faced by rural authorities are recognised, it is not unreasonable to expect the same considerations for the unique and significant pressures faced by London authorities. Historic funding levels have failed to reflect the pressures in London (and Bromley) including its underestimated population and the failure to recognise the impact of daytime visitors.

Bromley is the largest London Borough in terms of geographical size and this does have a negative impact on costs, not only relating to the maintenance of our large road network but also with regard to 'sparcity' issues including the higher cost of delivering services than in smaller, more condensed areas.

Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

We do not agree that increases in the safety net holdback should be funded from a cut to Revenue Support Grant. Authorities should not be financially penalised for an increase in the safety net holdback because of lower than expected business rate growth and the effect of outstanding and estimated future rating appeals.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018-19?

Bromley does not support the principle of capping council tax increases. Council tax levels should be determined locally and referendum principles should be removed.

Expenditure priorities, income generation and council tax levels are a matter for local decision making, not central control. In setting our annual budget, we face increasingly difficult decisions on service priorities and council tax levels and the balance between the two is a key consideration every year. It is important that we are given local flexibility to determine how our services are funded.

This view extends to the ASC Precept which, again, should be determined locally and should not be ring-fenced to fund adult social care. There are a number of services that are not sufficiently funded and this flexibility should be extended to fund other key pressure areas, for example children's social care and homelessness.

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?

We agree that the methodology appears reasonable and agree with the amendment to remove the one-off impact of changes in appeals provision.

Question 7: Do you have any comments on the impact of the 2018-19 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

Bromley has no comment on question 7.

Bromley
THE LONDON BOROUGH

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25th October 2017

LGFConsultation@communities.gsi.gov.uk

Dear Mr. Palmer

2018/19 Local Government Finance Settlement
Technical Consultation Paper

The London Borough of Bromley welcomes the opportunity to comment on the proposed technical changes to the Local Government Finance Settlement 2018/19.

It is important that the proposed changes are considered in the wider context of local government funding cuts and increasing demand for our services. We acknowledge that the reform of business rates and fair funding review will provide opportunities to fundamentally review how local government is funded in the long term but it is clear that the current system for funding local government is unsustainable.

We continue to express concern about the complexity and lack of transparency within the current local government finance system as well as the continued ring-fencing of some funding streams (including schools) which reduces flexibility to re-divert resources according to local priorities. We believe it is absolutely critical that these points are addressed as part of the Fair Funding Review.

Local government has received a disproportionate share of funding reductions. Bromley accepted the four-year funding offer on the basis that it provides a minimum funding level and therefore more certainty about future resources. However, this still represents a significant cut in settlement funding of over 50% in real terms over the four-year funding period. This is one of the highest reductions in London and significantly above the England average.

Whilst the Council supports the London business rate pilot in principle, it highlights the inequity that many of the high grant funded authorities will also receive the higher share of business rate growth income without the funding inequalities being addressed. Bromley's continued support for the London business rate pilot is strictly conditional on "Fair Funding" not being delayed.

In 2017/18 Bromley has the 5th lowest level of settlement funding in the whole of London despite having the 7th highest population (excluding City of London). We are the largest London Borough in terms of geographical size, have the highest proportion of older people (in both the over 65 and over 85 age groups) and the largest road network. The associated cost implications are not reflected in our settlement funding which is the 2nd lowest per head of population in the whole of London.

If we received the average level of grant funding, our income would increase by £65.2m in 2017/18. It is essential that DCLG reflect an adjustment to the Council's baseline funding position to address historic low funding levels. The Council appreciated the opportunity to meet with representatives from the Treasury on 29th July 2016 and provided more background information on the key issues we are facing as well as our contribution to the Autumn Statement.

The funding methodology should not include assumptions about the council tax raising ability of individual authorities. The introduction of this approach created perverse distortions into the system and resulted in a higher proportion of cuts for Bromley compared to the average.

The settlement funding does not recognise or reward efficient, low cost authorities like Bromley - something we have repeatedly raised. We have kept council tax low despite continued low levels of funding. We have done this by keeping our costs low. The funding mechanism should include a factor that recognises below average cost authorities having a lesser reduction in SFA or some degree of "protection" to lessen the impact on that basis.

London's population is growing at twice the rate of the rest of the country. This brings with it increasing demand for housing as well as other key services including schools, health, social care and transport. Bromley has one of the highest populations in the whole of London and the highest proportion of older people (in both the over 65 and over 85 age groups) leading to increased demand for services at a time of significantly reduced resources.

Inflation is slowly but continuously rising. As an authority that has been proactive in exploring alternative service delivery models, including outsourcing on a large scale, the impact of inflationary pressures is significant and, despite negotiation with our providers, largely outside of our control due to contractual obligations.

There are well publicised and very real pressures in both adult and children social care services. As these services represent a significant proportion of the Council's overall budget, increasing demand in these areas places a huge cost burden that is unable to be met from within the existing resource base.

Whilst we welcome the introduction of the Adult Social Care Precept and the additional funding announced as part of the 2017/18 budget, this does not go far enough to meeting the ongoing and increasing demand for these services. The additional £240m provided from the reallocation of NHB provides one-off funding in 2017/18 only and the additional £2bn announced in March 2017 for adult social care provides funding for a period of 3 years. This funding is substantially less than the amount needed to meet rising demand and cost pressures and does not address how pressures in adult social care will be funded on a sustainable and ongoing basis.

We, like many others, are facing increased pressures on our children's social care budgets from rising demand and increasing costs. Recruitment and retention has, for some time, been a challenge resulting in expenditure on high cost agency staff. We have been working hard to address this and been relatively successful in recruitment drives to appoint permanent children's social workers. The high cost of children's placements (LAC) is also causing increasing cost pressures.

We are experiencing increased pressures on our temporary accommodation budgets through rising demand and higher costs. The impact of the benefit cap and LHA levels being frozen means that private rented accommodation is unaffordable for low-income households. Although we have been successful in developing innovative opportunities with external partners to deliver temporary accommodation to help meet increasing demand, this is still not enough. Government must consider how this serious and increasing pressure is managed and funded in the long term.

We are in agreement with the principles of Welfare Reform but do have concerns about the financial risk that the rollout of Universal Credit will have for both the Council and our residents which we are raising separately through DWP. It is also critical that the financial implications of the Homelessness Reduction Act 2017 are reviewed to recognise that it is only partly funded at present.

We welcome the announcement by the Secretary of State for Education that the core schools budget will increase by £1.3bn in 2018/19 and 2019/20 and the commitment to ensuring that no school will lose out in cash terms as a result of the introduction of the National Funding Formula. SEN funding via the high needs block of the DSG is insufficient to meet current demand as SEN pupil numbers are expected to increase further. This will only add to these ongoing cost pressures.

It is important to ensure that any new burdens are fully assessed and funded on an ongoing basis. Some examples include the impact of the national living wage, no recourse to public funds, automatic enrolment, lifting of the public sector pay cap, the ending of contracting out and the indexation and equalisation of guaranteed minimum pensions.

Whilst we welcome the transition grant awarded following our response to the 2016/17 provisional settlement, this represents non-recurring income for two years only. This funding recognised some of the issues that Bromley is facing. Given the fact that we will face further significant cuts in government funding over the next two years, despite the pressures set out in this letter, we are seeking a commitment that this grant will be extended in the 2018/19 and 2019/20 settlements. The methodology for applying reductions in SFA is subjective in reflecting the council tax base within the calculation. Given the higher proportion of cuts applied to Bromley compared with the average we would wish for some form of 'damping' protection to be applied.

Whilst we agree with the proposed methodology to adjust tariffs and top ups for the 2017 revaluation, we remain concerned about the impact of future appeals. The accuracy of the adjustment at individual local authority level could have a significant impact. Authorities whose appeals exceed this level over the life of the list will lose out resulting in a lower level of retained business rates income. There needs to be a mechanism in place to ensure that this is addressed. It is also critical that authorities continue to be compensated for the cost of any measures which provide or extend small business rate relief or discounts including any further cap on the multiplier.

With increasing demand for services, immense pressure on adult and children's social care costs, rising population levels, the significant impact of homelessness pressures and increasing inflation levels it is becoming increasingly difficult to sustain the scale of funding reductions imposed upon us. We are also facing funding reductions in other funding sources, such as TfL, which adds yet further pressure to our financial planning. We welcome Government's commitment to devolution but it is unlikely that retained business rate growth will meet ongoing increases in cost and demand pressures.

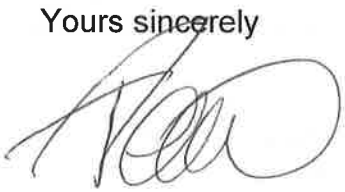
The current council tax system means that there is no flexibility for local authorities to ensure that the services important to our residents are adequately funded. To move towards becoming more self-sufficient, which is the right approach, we need to have complete flexibility in the use of our resources. As well as council tax levels, this also includes the removal of ring-fencing of government grants as well as freedom to generate income which can range from greater control of fees and charges to generating investment income to support key services.

We have previously responded to the Fair Funding Review: Call for evidence on Needs and Redistribution and look forward to contributing further towards the fair funding review which is a critical part of ensuring a long term and sustainable solution for local government funding.

It is critical that Government recognise the underfunding of existing services, provide additional resources and remove restrictions that prevent local authorities from raising or spending their own resources. Rising demand, increasing costs and reduced funding cannot be sustained and we would urge government to use the opportunity afforded by the fair funding review and 100% business rate retention to fundamentally review the long term funding of local government and ensure we have the flexibility in place to make the best use of our resources for our residents.

Bromley's response to the specific consultation questions is appended.

Yours sincerely



Peter Turner
Director of Finance

Consultation Questions

Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?

Bromley welcomed the government's commitment to a multi-year settlement. The four-year offer supports the Council's medium term financial strategy and was accepted on the basis that it provided a minimum funding level and therefore more certainty about future resources. However, the benefit of the multi-year settlement reduces over time and we need some degree of certainty to support our financial strategy beyond 2019/20 on the basis of some form of minimum funding guarantee.

We are also unclear about how the four-year funding offer will be affected by the Fair Funding Review and the 100% localisation of business rates and await further clarification on these points.

There is some uncertainty around other grants outside of the system that may still be subject to further cuts over the funding period. It is crucial that grant allocations for 2018/19 are published alongside or before publication of the provisional settlement in December. We would like to see the multi-year settlement expanded to include additional funding streams and the removal of current ring-fencing which would offer much needed flexibility. However, the ability to raise council tax must not be a factor in the allocation of these grants to individual authorities. This approach penalises authorities like Bromley who, whilst having a large council tax base, have worked tirelessly to keep our council tax low.

There is also an ongoing need to ensure that any new burdens, or new responsibilities that pass to local authorities to support of the phasing out of some grants, are fully funded on an ongoing basis.

Question 2: Do you agree with the New Homes Bonus allocation mechanism set out above?

Bromley does not support the reforms to New Homes Bonus (NHB). The proposals implemented in 2017/18 and further proposed reforms from 2018/19 will reduce the period of payment from six years to four and set a threshold to reduce the number of eligible properties. We are disappointed that NHB funding is being cut a time of significant reductions in government funding and growing demand for services. Any reduction in this important funding stream, by whichever method it is achieved, provides lower rewards for housing development at a time of extreme pressure on housing supply. These reforms significantly reduce the incentive for growth and fail to recognise the additional ongoing costs associated with increased housing development.

We do not support the policy of reducing NHB payments based on successful appeals given the complexity of planning decisions.

This NHB reforms have the potential to unfairly disadvantage authorities such as Bromley with over 50% of our area being Green Belt or Metropolitan Open Land where development is inappropriate as set out in the NPPF, London Plan and the Council's local policies. In addition part of an Area of Outstanding Natural Beauty lies within the area, 44 conservation areas and Areas of Special Residential Character which constrains the density and scale on many cases of development.

Question 3: Do you agree that the approach should be based on data collected by the Planning Inspectorate? If you disagree, what other data could be used?

The technical consultation document does not provide sufficient information about how this will work and we would like further detail about the proposed methodology.

Question 4: Do you agree with the proposed appeal/challenge procedure for the dataset collated by Planning Inspectorate? If you disagree, what alternative procedure should be put in place?

This would appear to be a reasonable approach.

Question 5: Are there any alternative mechanisms that could be employed to reflect the quality of decision making on planning applications which should be put in place?

We do not agree with the principle of reducing NHB allocations based on appeals. Planning permission is not solely in the hands of local authorities and may involve statutory consultees or national agencies. The proposal, as it stands, would penalise all authorities and fails to recognise that not all local authorities have the same potential for continued housing growth (as set out in question 2 above). Although we are not in agreement with any reduction based on appeals, should this progress, an alternative approach would be to apply a reduction to those authorities with the highest proportion of allowed appeals.

Question 6: Which of the two mechanisms referenced above do you think would be more effective at ensuring the Bonus was focussed on those development that the local authority has approved?

The consultation document does not provide sufficient information to enable a response.

Question 7: Do you think that the same adjustment as elsewhere should apply in areas covered by National Park Authorities, the Broads Authority and development corporations?

Question 8: Do you think that county councils should be included in the calculation of any adjustments to the New Homes Bonus Calculations?

Bromley has no comment on questions 7 and 8.

Question 9: Do you have views on council tax referendum principles for 2018-19 for principal local authorities?

Bromley does not support the principle of capping council tax increases. Council tax levels should be determined locally and referendum principles should be removed.

Expenditure priorities, income generation and council tax levels are a matter for local decision making, not central control. In setting our annual budget, we face increasingly difficult decisions on service priorities and council tax levels and the balance between the two is a key consideration every year. It is important that we are given local flexibility to determine how our services are funded.

This view extends to the ASC Precept which, again, should be determined locally and should not be ring-fenced to fund adult social care. There are a number of services that are not sufficiently funded and this flexibility should be extended to fund other key pressure areas, for example children's social care. Whilst we welcome the introduction of the Precept, and the additional flexibility for a variable increase, the overall increase remains subject to a 6% cap between 2017/18 and 2019/20 whilst current inflation levels are 3% per annum (CPI).

Paragraph 4.1.1 of the consultation document states that Government aims to balance the need to keep council tax low with ensuring that councils and others such as fire and rescue authorities, police and crime commissioners and combined authority mayors can raise sufficient funds. Bromley has the 3rd lowest council tax in Outer London and we have achieved this, despite having a low level of government funding, by keeping costs low. Rather than restricting local decisions on council tax levels, financial incentives should be built into the system to reward efficient, low cost authorities like Bromley.

Question 10: Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?

Question 11: What factors should be taken into account in determining an Alternative Notional Amount for Combined Authority mayors?

Question 12: Do you agree with the proposed approach to correcting the reduction in relevant county councils' income from the Adult Social Care precept?

Question 13: Do you have any comments on the impact of the proposals for the 2018-19 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Bromley has no comment on questions 10 to 13.