

Report No.
FSD20022

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: **Executive**

Date: **12th February 2020**

Decision Type: Non-Urgent Executive Key

TITLE: **2020/21 Council Tax**

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Director: Director of Finance

Ward: Borough wide

REASON FOR REPORT

- 1.1 A key part of the financial strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to revenue spending. Details of the capital programme will be reported separately to Executive.
- 1.2 The Provisional Local Government Finance Settlement 2020/21, which covers 2020/21 only, provides a significant improvement in funding for local government and represents the most positive funding proposal for local government since austerity began 10 years ago.
- 1.3 There remains uncertainty around the level of Government funding for 2021/22 and beyond. The longer-term Spending Review has been postponed for one year (until 2021/22) together with the outcome of the Fair Funding Review and Devolution of Business Rates.
- 1.4 This report identifies the final issues affecting the 2020/21 revenue budget and seeks recommendations to the Council on the level of the Bromley element of the 2020/21 Council Tax and Adult Social Care precept. Confirmation of the final GLA precept will be reported to the Council meeting on 24th February 2020. 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 2020/21 but to have measures in place to deal with the medium term financial position (2021/22 to 2023/24).
- 1.5 With the Government reductions in funding since austerity measures began, the burden of financing increasing service demands falls primarily on the level of council tax and share of business rate income.

2. RECOMMENDATIONS

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

- (a) Approves the schools budget of £79.506m which matches the estimated level of Dedicated Schools Grant (DSG), after academy recoument;
- (b) Approves the draft revenue budgets (as in Appendix 2) for 2020/21;
- (c) Agrees that Chief Officers identify alternative savings/mitigation within their departmental budgets where it is not possible to realise any savings/mitigation reported to the previous meeting of the Executive held on 15th January 2020;
- (d) Approves a contingency sum of £12,622k (see section 6);
- (e) Approves the following provisions for levies for inclusion in the budget for 2020/21;

	£'000
London Pension Fund Authority*	470
London Boroughs Grant Committee	248
Environment Agency (Flood defence etc.) *	258
Lee Valley Regional Park *	324
Total	1,300

* 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 12);
- (g) Considers the “Bromley element” of the Council Tax for 2020/21 to be recommended to the Council, including a general increase and the Adult Social Care Precept, having regard to possible ‘referendum’ issues (see section 16);
- (h) Approves the approach to reserves outlined by the Director of Finance (see Appendix 4);
- (i) Notes that any decision on final council tax level will also require additional “technical” recommendations, to meet statutory requirements, which will be completed once the final outcome of levies are known at the full Council meeting (see 16.9);
- (j) Agrees that the Director of Finance be authorised to report any further changes directly to Council on 24th February 2020.

Impact on Vulnerable Adults and Children

1. Summary of Impact: None arising directly from this report
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Corporate

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 £167m Draft 2020/21 Budget (excluding GLA precept)
 5. Source of funding: See Appendix 2 for overall funding of Council's budget
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Personnel

1. Number of staff (current and additional): total employees – full details will be available with the Council's 2020/21 Financial Control Budget to be published in March 2020
 2. If from existing staff resources, number of staff hours – N/A
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Legal

1. Statutory requirement: The statutory duties relating to financial reporting are covered within the Local Government Act 1972; the Local Government Finance Act 1998; the Local Government Act 2000; the Local Government Act 2002 and the Accounts and Audit Regulations 2015.
 2. Call-in is applicable
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Procurement

1. Summary of Procurement Implications: None arising directly from this report
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Customer Impact

Estimated number of users/beneficiaries (current and projected) - the 2020/21 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 In considering this report further background information was available through the Members' seminars as follows:

- (a) Members' Welfare Reform Seminar on 14th January 2019;
- (b) Members' Finance Seminar on 24th June 2019.

3.2 The 'Draft 2020/21 Budget and Update on the Council's Financial Strategy 2021/22 to 2023/24' was reported to the Executive on 15th January 2020. 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 15th January 2020)

- (a) Approach to Budgeting, Financial Context and Economic Situation which can impact on Public Finances (Section 3 and Appendix 1);
- (b) Provisional Local Government Finance Settlement 2020/21 (Appendix 2);
- (c) Council Tax Levels, Government Funding and Spend Levels (Appendix 3);
- (d) Changes since the 2019/20 Budget that impact on the Financial Forecast (Section 6);
- (e) Latest Financial Forecast (Section 5 and Appendices 5-6);
- (f) Detailed Draft 2020/21 Budget (Section 7 and Appendix 7);
- (g) Options being undertaken with a "One Council" approach including Transformation (Section 8);
- (h) Future Local Authority Landscape (Section 9);
- (i) The Schools' Budget (Section 11);
- (j) Consultation (Section 16);
- (k) Position by Portfolio – Key Issues/Risks (Section 17 and Appendix 10).

All of the above should be considered with this report as part of finalising the 2020/21 Budget and council tax levels.

4. 2020/21 DRAFT BUDGET AND CHANGES SINCE LAST MEETING OF THE EXECUTIVE

4.1 The last report to the Executive identified a balanced budget in 2020/21, assuming an increase in council tax and adult social care precept of 3.99%, and a 'budget gap' of £16.9m by 2023/24. The main updates are shown below:

- (a) The final Local Government Financial Settlement 2020/21 is still awaited and any updates will be provided at the meeting;
- (b) The Portfolio Holder for Resources, Commissioning and Contracts Management announced at the last meeting of Executive that the Council is proposing an across the board pay increase of 2.5% for Council staff with further changes to staff on lower scale points (inclusive of the 2.5%). Further details are being reported to General Purposes and Licensing Committee on 11th February 2020. The financial impact of this proposal has been included in the Draft 2020/21 Budget;
- (c) Additional Government funding in 2020/21 of £103,654 for Rough Sleepers Initiative. Additional spend of an equivalent amount has been assumed in the Draft 2020/21 Central Contingency Sum.

5. LATEST FINANCIAL FORECAST

5.1 A summary of the latest budget projections is shown in Appendices 1 and 2 and are summarised in the table below:

Variations Compared with 2019/20 Budget	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Changes in Government Core Funding	-0.6	3.0	6.0	9.0
Cost Pressures				
Increased costs (2.3% per annum in 2020/21, 2.5% per annum from 2021/22)	6.2	12.9	19.8	26.8
Reinstatement of highways maintenance (previously capitalised)	0.0	0.0	2.5	2.5
Total Additional Costs	6.2	12.9	22.3	29.3
Income / Savings				
Interest on balances	-0.3	-0.2	-0.2	-0.2
Release general provision in contingency for significant uncertainty/variables	-4.2	-6.0	-8.0	-8.0
Savings from children's social care linked to invest to save	-0.5	-0.8	-0.8	-0.8
Review of staffing across organisation	-0.9	-0.9	-0.9	-0.9
Impact of fully funded pension scheme - deficit contribution no longer required	-2.1	-2.1	-2.1	-2.1
Adult social care and children's social care grant	-4.2	-4.2	-4.2	-4.2
Additional high needs funding requiring no general fund contribution	-3.2	-4.5	-5.2	-4.3
Transformation Savings (based on commitments/approvals already made)	-4.1	-5.6	-5.9	-6.1
Total Income / Savings	-19.5	-24.3	-27.3	-26.6
Other Changes (includes use of non-recurring funds)				
Fall out of Collection Fund surplus 2017/18 set aside as one off support towards meeting the funding shortfall in 2019/20	6.7	6.7	6.7	6.7
Real Changes and other Variations	-0.7	-0.7	0.2	-0.2
Fall out of New Homes Bonus funding	0.9	1.9	2.3	2.5
Fall out of one off business rate levy	0.6	0.6	0.6	0.6
Fall out of London pilot of business rates	2.2	2.2	2.2	2.2
Estimated impact of McCloud judgement on pension costs	0.4	0.4	0.4	0.4
Set aside of New Homes Bonus Funding for housing investment	1.6	0.7	0.2	0.0
Continuation of iBCF funding originally due to fall out in 2020/21	-1.7	0.0	0.0	0.0
Set aside of iBCF funding to support hospital discharge impact on social care costs	1.7	0.0	0.0	0.0
Carbon Neutral Initiatives Fund	0.9	0.0	0.0	0.0
Education Funding Risk Reserve	0.5	0.5	0.5	0.5
Total Other Changes	13.1	12.3	13.1	12.7
Council Tax				
Assumed increase in council tax base number of properties	-0.7	-1.5	-2.3	-3.0
Increase in council tax (assume 1.99% per annum)	-3.2	-6.4	-9.7	-13.1
Impact of Adult Social Care Precept (assume 2% per annum)	-3.2	-3.2	-3.2	-3.2
Collection Fund Surplus 2018/19	-5.9	0.0	0.0	0.0
Collection Fund set aside to meet future years budget gap	5.9	0.0	-5.9	0.0
Projection of future year collection fund surplus	0.0	-4.0	-3.0	-2.0
Total Council Tax	-7.1	-15.1	-24.1	-21.3
Growth/Cost Pressures including mitigation (see Appendix 6)				
Education	1.5	3.1	4.4	5.1
Childrens Social Care	1.1	1.5	1.8	1.8
Adult Social Care	4.4	6.9	8.1	9.3
Housing	0.2	-0.1	-3.2	-3.5
Reduction in investment property income	0.7	0.6	0.9	1.1
Total growth/cost pressures	7.9	12	12	13.8
Remaining "Budget Gap"	0.0	0.8	2.0	16.9

- 5.2 The above table shows, for illustrative purposes the impact of a council tax increase of 3.99% in 2020/21 (including adult social care precept). Each 1% council tax increase generates on-going annual income of £1.6m. The financial forecast assumes that any future increases in the Adult Social Care precept cease beyond 2020/21. It should be noted that the current legislation only provided powers for this precept until the end of 2020/21.
- 5.3 These variations are subject to any final decision on Council Tax levels. Appendix 2 derives an illustrative 'Bromley element' Council Tax of £1,264.77 (1.99% general increase plus 2% adult social care precept) and Appendix 3 includes the Draft 2020/21 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.
- 5.4 Appendix 1 highlights that the Council, on a roll forward basis, has a "structural deficit" as the on-going budget has increasing costs relating to inflation, service pressures and potential future loss of Government grants. These changes are not being fully funded by a corresponding growth in income. The above projection includes savings previously agreed to reduce the 'budget gap' and the situation has improved following the 2019 Spending Round.
- 5.5 The above table highlights that, although it has been possible to achieve a potential balanced budget for next year even after allowing for significant cost pressures there remains a "budget gap" of £0.8m in 2021/22 rising to £16.9m per annum in 2023/24. 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 2021/22 which will include the revised levels of funding for individual local authorities following the 'Fair Funding' review and Spending Review combined with the awaited outcome of the devolution of business rates income (75% share with GLA).
- 5.6 In considering action required to address the medium term "budget gap", the Council has taken significant action to reduce the cost base while protecting priority front line services and providing sustainable longer term solutions. Significant savings of over £100m were realised since 2011/12. Our council has to balance between the needs of service users and the burden of council tax on council tax payers. With the Government having placed severe reductions in the level of grant support, the burden of financing increasing service demand falls primarily upon the level of council tax and business rate income.
- 5.7 Further changes will be required, prior to the report to full Council on 24th February for the finalisation of the Council Tax, to reflect latest available information on levies, and the final GLA precept.
- 5.8 The reasons for the budget gap by 2023/24 include, for example:
- (a) inflation pressures partly offset by assumed council tax increase (1.99% per annum) and social care precept (2020/21 only) of 2% leaving a balance required of £10.5m;
 - (b) Loss of core grant funding of £9m;
 - (c) Growth/cost pressures less mitigation of £12.7m relating to education, social care and housing. If further growth pressure continues in these areas, as well as other areas, the future years 'budget gap' could increase;

- (d) Additional income of £4.2m from Government social care funding which partly offsets the social care cost/growth pressures;
- (e) Additional High Needs funding from Government, utilising £3.2m in 2020/21 (£4.3m in 2023/24) which partly offsets the education cost/growth pressures;
- (f) Phase 1 of the Transformation savings (£4.1m in 2020/21 increasing to £6.1m per annum in 2023/24);
- (g) Savings from reduction in the Council's provision for risk/uncertainty held within the Central Contingency Sum (savings of £8m per annum);
- (h) Fall out of use of use of collection fund surplus and new homes bonus funding (£7.3m net).

5.9 Even using a 'best case scenario' that there are no government grant reductions after 2020/21, the final budget gap in future years will remain significant (£7.9m).

5.10 In the financial forecast, after allowing for inflation, council tax income and other changes we have an unfunded budget gap mainly due to net service growth/cost pressures. Therefore elements of service growth/cost pressures are effectively unfunded. This highlights the importance of scrutinising growth and recognition that corresponding savings will need to be found to achieve a statutory balanced budget. It is timely as we all have to consider what level of growth the council can afford and the need for significant mitigation or alternative transformation options.

6. DRAFT 2020/21 CENTRAL CONTINGENCY SUM

6.1 Details of the 2020/21 Draft Contingency Sum of £12,622k have been included in Appendix 3. This sum includes a provision for risk/uncertainty in the future included in the base budget. There remains a need to consider a significant provision in the central contingency sum to allow for unforeseen costs, prevent drawing from reserves to fund overspends, to reflect the impact of new burdens introduced after the budget was set, to cover the impact of savings and mitigation of growth not realised and, as in the past, enable funding of key initiatives and investment opportunities.

6.2 It is important to recognise that this sum also 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 2020/21 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 2020/21 Budget.

6.3 The updated financial forecast assumes the release of £4.2m in 2020/21, £6m in 2021/22 and £8m per annum from 2022/23 to directly support the revenue budget.

7. GENERAL AND EARMARKED RESERVES

7.1 Appendix 4 of this report highlights the Council's approach to utilising reserves and the significant value in retaining reserves. The level of reserves needs to be adequate to ensure the longer term stewardship of the Council's finances remain effective and the Council maintains 'sustainable' finances in the medium term. Medium term

planning remains absolutely key in recognition of the ongoing 'structural' budget deficit facing the Council. Inflation, new burdens, growth/cost pressures and previous reductions in Government funding has created the structural budget deficit. Reserves are one off monies and do generate income and should only be used where no other savings/efficiencies can be identified or to plug the gap (short term) for the phasing of savings.

- 7.2 The Council will have retained previous year's collection fund surpluses as well as a financial management and risk reserve (both included within earmarked reserves) which can support any planned transition in delivering significant savings to meet the budget gap. However, any medium or longer term utilisation of one off resources and reserves to support the revenue budget are unsustainable and place the council at greater financial risk in the future.
- 7.3 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 the resultant 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.
- 7.4 The Council had general reserves remaining of £20m as at 31/3/2019. A full breakdown of reserves, including earmarked reserves, is detailed in Appendix 4.

8. 2019/20 BUDGET MONITORING

- 8.1 The most recent budget monitoring position was reported to Executive on 27th November 2019. The report identified an overall net underspend of £1.6m but highlighted full year costs of £5.2m. The majority of these full year costs relating to Adult Care and Health Services (£3.5m) and Education, Children and Families (£1.8m) have been included in the 2020/21 Budget. The Government's additional funding for social care in 2020/21 (£4.2m) has been utilised towards meeting these full year costs.

9. THE SCHOOLS BUDGET

- 9.1 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).
- 9.2 The implementation of the National Funding Formula (NFF) began in 2018/19. Funding has been split into four blocks, Schools, High Needs, Early Years and Central Spend DSG. The funding splits are detailed in the table below:

PROVISIONAL DSG FUNDING					
	Schools	High Needs	Early Years	Central	Total
	£'000	£'000	£'000	£'000	£'000
2019/20	208,637	49,016	22,181	1,938	281,772
2020/21	218,401	53,540	22,530	1,920	296,391
Variation	9,764	4,524	349	-18	14,619

- 9.3 The Schools Block has risen by £9.8m. This is due to an increase in the per pupil unit funding and increases in the population figures.
- 9.4 The High Needs Block is seeing pressures coming through the system. The Government recently announced increases in funding for 2020/21 of £700m nationally to acknowledge these pressures and the fact that some Authorities were building up high levels of deficit reserves. This announcement by Government has resulted in an increase in funding of £4.5m for Bromley.
- 9.5 Although there are increases in funding, predictions for expenditure are rising at a faster rate. This is due to growth in pupil numbers in this area, Government extending the scope of the High Needs Block from ages 5 to 19 to 0 to 25 and historical baseline funding adjustments. Moreover future funding levels have not yet been announced and so there is uncertainty as to what funding levels will be from 2021/22.
- 9.6 The Council were contributing core funding of £1.9m in 2019/20 to support High Needs expenditure. The additional grant means that this can now be removed and the additional DSG grant can be used as envisaged by the Government.
- 9.7 It is also proposed to set aside £1.1m of the funding as part of a four year strategy to smooth the impact of High Needs demands as far as possible until 2023/24.
- 9.8 There are no firm guarantees for High Needs funding beyond 2020/21 and this will avoid spikes in funding deficits as far as possible.
- 9.9 The Council are also proposing to set aside £500k per annum of core funding in a reserve, in the event that deficits in the Education funding cannot be met. Any drawdown of this funding would need a report and the agreement of the Executive.
- 9.10 Early Years funding has increased by £349k. This is due to increases in population and take up and in increase in the rates from government. Early Years DSG is adjusted in years to take account of take up during the year, so the figure will change as the year progresses.
- 9.11 The Central Block has decreased as expected by £18k. However, this has been offset slightly by an increase in funding based on pupil number increases. There continues to be pressures in the Central Schools DSG due to funding shortfalls.
- 9.12 Last year the Council used £310k of core LBB funding to underpin this expenditure. A further £50k is being proposed for 2020/21 bringing the total Council core funding to £360k.
- 9.13 The use of DSG is subject to consultation with the Schools Forum and this also went to the Children Education and Families PDS Committee on the 30th January 2020. At the time of

writing this report, this is subject to the formal agreement of the Children, Education, and Families Portfolio Holder.

10. LEVIES

- 10.1 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 24th February 2020. 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.

11 COLLECTION FUND

- 11.1 It is a statutory requirement to maintain a Collection Fund at arm's length from the remainder of the Council's accounts.
- 11.2 The Council has a non-recurring collection fund surplus of £7.4m reflected in the '2018/19 Provisional Final Accounts' report to Executive on 21st May 2019. The surplus income is mainly due to good debt recovery levels, an increase in new properties in the borough and the successful continuing 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 £1.5m will be allocated to the GLA and £5.9m to the Council. The financial forecast assumes that the surplus will be used towards reducing the Council's "budget gap" in 2022/23, which is an approach previously used to 'smooth out' future years budget gap.
- 11.3 There have been no changes to the council tax base since the previous meeting of the Executive.

12. THE GREATER LONDON AUTHORITY PRECEPT

- 12.1 The GLA's 2020/21 Draft Budget has been issued for consultation and is expected to be updated to include proposals for an increase of 3.6% in existing GLA precept levels for 2020/21, to reflect a recent Home Office settlement for policing providing greater flexibility in increasing the precept to fund police services. The final GLA precept for 2020/21 is expected to be announced after the Assembly has considered the Mayor's draft consolidated budget on 24th February 2020.

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

- 13.1 The latest estimated general fund (revenue) balance at 31st March 2020, as shown in the 'Budget Monitoring 2019/20' report to the 27th November 2019 meeting of Executive, is provided below:

	2018/19 Projected Outturn £Million
General Fund Balance as at 1 st April 2018	20.0
Impact of net projected underspends reflected in the 2019/20 budget monitoring report	+1.6
Adjustment to Balances: Carry forwards (funded from underspends in 2017/18)	-0.8
Estimated General Fund Balance at 31 st March 2020 (end of year)	20.8

- 13.2 Bromley's Capital programme is mainly funded by external government grants, contributions from TfL and from general capital receipts. Site G will be funded through internal borrowing on the basis that a significant capital receipt will be realised at a later date to repay the internal loan.
- 13.3 The latest capital programme funding projections indicate that the Capital Programme will not require significant levels of funding from the Councils General Fund reserve until 2024/25.
- 13.4 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.
- 13.5 Details of the Council's Building Maintenance Programme and associated costs will be reported to a future meeting of the Executive. No significant changes in the overall cost of the programme have been assumed in the 2020/21 Budget, at this stage.

14. CONSULTATION

- 14.1 Two separate resident association meetings were held on 18th November 2019 and 25th November 2019 relating to 'Looking to the Future'. The outcome was reported to the previous meeting of the Executive.
- 14.2 Executive, at its meeting on 15th January 2020, requested that the 'Draft 2020/21 Budget and Update on Council's Financial Strategy 2021/22 to 2023/24' 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 24th February 2020 where the 2020/21 Budget and Council Tax will be agreed.
- 14.3 The use of DSG is subject to consultation with the Schools Forum and this also went to the Children Education and Families PDS Committee on the 30th January 2020. At the time of writing this report, this is subject to the formal agreement of the Children, Education, and Families Portfolio Holder.
- 14.4 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.

14.5 Other examples of consultation will include consultation on specific budget proposals.

15. POSITION BY DEPARTMENT – KEY ISSUES/RISKS

15.1 There remain risks in meeting the ‘budget gap’ arising from budget savings, mitigation options to address cost pressures, as well as ongoing cost pressures arising from new burdens and the impact of Government policy changes. Action will need to be taken to contain, where possible these cost pressures, managing the implementation of savings or seeking alternative savings where required. The Council’s Corporate Risk Register shows that ‘Failure to deliver a sustainable financial strategy which meets Building a Better Bromley priorities and failure of individual departments to meet budget’ is the highest risk the Council is facing.

15.2 Details of the potential risks which will be faced in future years, as part of finalising the 2020/21 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.

16. COUNCIL TAX LEVEL 2020/21

16.1 The updated GLA’s 2020/21 Draft Budget includes proposals for an increase of 3.6% in existing GLA precept levels for 2020/21. The final GLA Precept for 2020/21 is expected to be announced after the Assembly has considered the Mayor’s draft consolidated budget on 24th February 2020.

16.2 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 £1,216.26 in 2019/20 and a further sum of £320.51 for the GLA precept (providing a total Band D equivalent Council Tax of £1,536.77).

16.3 For 2020/21 every £1m change in income or expenditure causes a 0.6% variation in the ‘Bromley element’ of the Council Tax. Each 1% council tax increase generates ongoing annual income of £1.6m.

16.4 As part of the Localism Act, any council tax increase of 2% or above in 2020/21 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 £700k.

16.5 The Government has enabled the Council in 2020/21 to have a council tax precept of up to 2% per annum to specifically fund adult social care (a 2% increase in council tax equates to £3.2m additional income per annum). The Government recognises that the precept can also include, for example, funding the additional cost of the Living Wage. Councils are able to levy the precept on top of the existing freedom to raise council tax by up to 1.99% without holding a referendum. Therefore, the Council could potentially have a council tax increase of just below 4% without the need for a council tax referendum. The financial forecast assumes the precept could not continue beyond 2020/21. The Council’s ability to raise income through an increase in the council tax and the adult social care precept is reflected in the overall level of Government funding received by the Council.

16.6 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 3.6% there would be an overall combined council tax increase of around 3.91%. This would equate to an overall Council Tax (Band D equivalent) of £1,596.84 consisting of the Bromley element of £1,264.77 and GLA precept of £332.07.

- 16.7 The table below identifies the changes required to the draft 2020/21 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 2020/21 Draft Budget at this stage.

Increases in Council Tax Levels

Bromley Element % Increase in 2020/21 including Adult Social Care Precept	Additional Income 2020/21 £'m
Freeze	NIL
1.0	1.6
2.0	3.2
3.0	4.8
3.99*	6.4
4.99#	8.0

*Assumed in draft 2020/21 Budget. Adult social care precept of 2% equates to additional income of £3.2m per annum. # Would be subject to a council tax referendum

- 16.8 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 2020/21 but also the longer term impact over the four year forecast period.
- 16.9 The Council Tax Referendum Principles are expected to be confirmed as part of the final Local Government Finance Settlement 2020/21. Any final recommendations on council tax levels will need to take into account any changes to statutory requirements.
- 16.10 Bromley has the second lowest settlement funding per head of population in 2019/20 for the whole of London. Despite this, Bromley has retained 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. Further details were reported to the previous meeting of the Executive.
- 16.11 Members are asked to consider the impact of the latest draft budget on the level of Council Tax for 2020/21, having regard to all the above factors, including the Director of Finance comments in Sections 18.6, 18.7, 18.8 and Appendix 4.

17. FUNDING SETTLEMENT

- 17.1 Details of the Council's representation on the response to the 'Local Government Finance Settlement 2020 to 2021: Technical Consultation' were reported to the previous meeting of the Executive. The Council's response to the Provisional Local Government Finance Settlement 2020/21 is provided in Appendix 5. The Council will continue to engage local MPs and Government ministers to secure a better funding deal for the Council and its residents.
- 17.2 Although the Local Government settlement for 2020/21 represents a significant improvement in funding from Government it remains a one year settlement only.

18. MEDIUM TERM FINANCIAL PLANNING

- 18.1 Local Government funding arrangements are set to experience their most significant reform for over two decades. The outcome of the Fair Funding Review (a revised formula for local government funding allocation), the devolution of business rates and the Spending Review (provides the plan on how the Government money will be allocated across years determining the financial quantum for local authorities) will not be known until the autumn 2020. In addition, there are likely to be transitional arrangements that will impact on any 'winners' and 'losers' amongst Councils.
- 18.2 The detailed approach of the Council towards budgeting over the medium to longer term was reported to Executive on 15th January 2020 and the Draft 2020/21 Budget and future years' forecasts reflect the impact of this approach.
- 18.3 With the future funding uncertainty together with ongoing cost/growth pressures, 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.
- 18.4 For financial planning purposes, the financial forecast assumes a council tax increase of 1.99% per annum over the following three years to compensate for funding reductions, to meet inflationary costs on social care and provide funding to meet increasing social care costs, demographic cost pressures. As part of the Local Government Finance Settlement 2020/21, the Government's reported 'Spending Power' of local government assumes that Councils will raise alternative funding, to partly determine grant calculations, from council tax increases and utilisation of the Adult Social Care precept. The financial forecast reflects that approach.
- 18.5 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, recognising that local authorities funding from Government remains 'unprotected' compared with NHS and other 'protected' services. It is therefore likely that, even if funding levels are maintained, the ongoing demographic and other cost pressures are unlikely to be matched by corresponding increases in government funding.
- 18.6 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 together with an improved financial settlement have provided an opportunity to provide a balanced budget for next year. To illustrate the benefit of the investment approach the Council has undertaken, budgeted income totaling £14.9m from a combination of treasury management income (£3.6m) and rents from investment and operational properties (£11.3m) is expected to be realised. Without this income, equivalent service reductions may be required. Utilisation of the remaining uncommitted Growth and Investment Fund monies will continue to be prioritised for housing investment, at this stage, given the need to reduce the significant cost pressures on homelessness and the opportunities for invest to save. 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 has already undertaken 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.

18.7 The background to the impact of real reductions in government funding within the local authority landscape was reported to the last meeting of the Executive. Bromley has delivered savings of over £100m since 2011 and has a low cost base which makes further savings more challenging. Changes in Government funding are not expected to meet future year cost pressures and new burdens which will continue over the next four years. CIPFA have provided advice to local authorities on the financial stress warning signs:

- Running down reserves – a rapid decline of reserves;
- A failure to plan and deliver savings in service provision to ensure a council lives within its resources;
- Shortening medium-term financial planning horizons – perhaps from four to three years to two years or even one year – this would indicate lack of strategic thinking and unwillingness to confront tough decisions;
- Greater ‘still to be found’ gaps in saving plans – identifying savings for the next financial year only and not beyond;
- Growing tendency for departments to have unplanned overspends and/or carrying forward undelivered savings in the following year.

18.8 The Council is ‘better placed’ than many other authorities due to remaining debt free , has retained adequate level of reserves and maintained adequate provisions in the Council’s revenue budget for unforeseen costs and risks. The Council has maintained four year financial planning despite the future funding uncertainty (awaited Spending Review, Fair Funding review and devolution of business rates from 2021/22) and it remains essential that action is taken to address any in year overspends, recognising that there could be a full year impact which could increase the ‘budget gap’ further. Continuing the One Council Transformation approach as reported to the previous meeting of the Executive, as well as minimising cost/growth pressures are essential to identify options from 2021/22 to address the medium term budget gap and ensure the Council can continue to ‘live within its means’. It also remains essential that Chief Officers identify mitigating action to address any in year cost pressures/new burdens to remain within their ‘cash envelope’. Commentary on the level of reserves and robustness of the 2020/21 Budget are provided in Appendix 4.

18.9 Stewardship and delivering sustainable finances are increasingly important whilst cost pressures and the Government’s fiscal squeeze continues. 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.

19. IMPACT ON VULNERABLE ADULTS WITH CHILDREN

19.1 The Draft 2020/21 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.

20. POLICY IMPLICATIONS

- 20.1 The Draft 2020/21 Budget enables the Council to continue to deliver on its key priorities and the financial forecast enables medium term financial planning allowing for early decisions to be made which impact on the medium term financial plan. The Council continues to deliver key services and lives within its means.

21. PERSONNEL IMPLICATIONS

- 21.1 Staff, departmental and trade union representatives will be consulted individually and collectively on any adverse staffing implications arising from the Draft 2020/21 Budget. Managers have also been asked to encourage and facilitate staff involvement in budget and service planning.

22. LEGAL IMPLICATIONS

- 22.1 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.
- 22.2 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 16 of the Report). This replaced the previous power of the Secretary of State to "cap" local Authority budgets.
- 22.3 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.
- 22.4 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.
- 22.5 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.

- 22.6 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.
- 22.7 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.
- 22.8 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.
- 22.9 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.

<p>Background documents</p>	<p>Treasury Management – Annual Investment Strategy 2020/21 and Quarter 3 Performance 2019/20, Executive, Resources and Contracts PDS Committee and Council, 5th February 2020 and 24th February 2020</p> <p>Capital Programme Monitoring Q3 2019/20 and Capital Strategy 2020 to 2024, Executive and Council, 12th February 2020 and 24th February 2020</p> <p>Draft 2020/21 Budget and Update on Council’s Financial Strategy 2021/22 to 2023/24, Executive, 15th January 2020</p> <p>Budget Monitoring 2019/20, Executive, 27th November 2019</p> <p>Insurance Fund – Annual Report 2018/19, Executive, Resources and Contracts PDS Committee, 9th October 2019</p> <p>2018/19 Provisional Final Accounts. Executive, 21st May 2019</p> <p>2018/19 Council Tax, Executive, 13th February 2019</p>
<p>Financial Considerations</p>	<p>Covered within overall report</p>

DRAFT 2020/21 BUDGET AND FINANCIAL FORECAST 2021/22 TO 2023/24

APPENDIX 1

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Bromley's Budget Requirement in 2019/20 (before funding from Formula Grant) @	200,242	200,242	200,242	200,242	200,242
Formula Grant and Business Rate Share	-40,391	-40,391	-40,391	-40,391	-40,391
	159,851	159,851	159,851	159,851	159,851
Changes in Government Core Funding		-616	3,000	6,000	9,000
Cost pressures					
Increased costs (2.3% per annum in 2020/21, 2.5% per annum from 2021/22)		6,231	12,909	19,759	26,787
		6,231	12,909	19,759	26,787
Reinstatement of highways maintenance (previously capitalised)				2,500	2,500
Total additional costs		6,231	12,909	22,259	29,287
Income/Savings					
Interest on balances		-300	-200	-200	-200
Release general provision in contingency for significant uncertainty/variables		-4,251	-6,000	-8,000	-8,000
Savings from children's social care linked to invest to save funding		-500	-750	-750	-750
Review of staffing across organisation		-900	-900	-900	-900
Impact of fully funded pension scheme - deficit contribution no longer required		-2,100	-2,100	-2,100	-2,100
Adult social care and children's social care grant		-4,216	-4,216	-4,216	-4,216
Additional high needs funding requiring no general fund contribution		-3,187	-4,535	-5,235	-4,319
Transformation Savings (based on commitments/approvals already made)		-4,096	-5,621	-5,885	-6,070
		-19,550	-24,322	-27,286	-26,555
Other changes					
Fall out of Collection Fund surplus 2017/18 set aside as one off support towards meeting the funding shortfall in 2019/20		6,753	6,753	6,753	6,753
Fall out of New Homes Bonus funding		919	1,860	2,280	2,531
Fall out of one off business rate levy		581	581	581	581
Fall out of London pilot of business rates		2,200	2,200	2,200	2,200
Estimated impact of McCloud judgement on pension costs		400	400	400	400
Set aside of New Homes Bonus Funding for housing investment		1,612	671	251	0
Continuation of iBCF funding originally due to fall out in 2020/21		-1,677	0	0	0
Set aside of iBCF funding to support hospital discharge impact on social care costs		1,677	0	0	0
Carbon Neutral Initiatives Fund		875	0	0	0
Education Funding Risk Reserve		500	500	500	500
Real Changes and other Variations		-717	-676	174	-269
		13,123	12,289	13,139	12,696
Council Tax					
Assumed increase in council tax base number of properties		-750	-1,500	-2,250	-3,000
Growth/Cost Pressures including mitigation					
Adults and Children Social Care, Education and Housing					
- Education		1,452	3,158	4,409	5,113
- Children's Social Care		1,135	1,477	1,773	1,784
- Adults Social Care		4,405	6,956	8,126	9,329
- Health support to schools (funded by cash limiting Public Health		0	0	0	0
- Housing		239	-136	-3,194	-3,485
Reduction in investment property income		713	616	853	1,055
Total growth/cost pressures		7,944	12,071	11,967	13,796
Budget Requirement		166,233	174,298	183,680	195,075
2019/20 Council Tax Income	-159,851	-159,851	-159,851	-159,851	-159,851
Increase in council tax (assume 1.99% per annum)		-3,182	-6,425	-9,734	-13,109
ASC Precept @2%		-3,200	-3,200	-3,200	-3,200
Budget Gap before use of collection fund surplus		0	4,822	10,895	18,915
Collection Fund surplus 2018/19		-5,900			
Collection fund set aside to meet future years budget gap		5,900		-5,900	
Projection of future years collection fund surplus		0	-4,000	-3,000	-2,000
Revised Budget Gap after allowing for growth/cost pressures and draft savings identified		0	822	1,995	16,915

1) The above forecast assumes a council tax increase of 1.99% per annum for the four year period and an adult social care precept increase of 2% in 2020/21 only

2) The Draft 2020/21 Budget includes investment income of £14.9m consisting of interest on balances (£3.6m) and investment property income (£11.3m)

SUMMARY OF DRAFT 2020/21 REVENUE BUDGET - PORTFOLIO

2019/20 Final Budget £'000	Portfolio/Item	2020/21 Draft Budget £'000	2020/21 Band "D" Equivalent £
84,176	Education	85,785	649.76
Cr 76,722	Less costs funded through Dedicated Schools Grant	Cr 79,506	Cr 602.20
7,454	Sub total	6,279	47.56
37,304	Childrens Social Care	35,735	270.67
69,424	Adult Care and Health	71,700	543.08
31,295	Environment & Community Services Portfolio	31,086	235.45
2,447	Public Protection and Enforcement	2,403	18.20
16,015	Renewal, Recreation and Housing	14,805	112.14
31,764	Resources, Commissioning & Contracts Management	31,631	239.58
3,986	Non Distributed Costs & Corporate & Democratic Core	1,870	14.16
199,689	Total Controllable Budgets	195,509	1,480.84
11,768	Total Non Controllable Budgets	9,341	70.75
Cr 792	Total Excluded Recharges	Cr 853	Cr 6.46
210,665	Portfolio Total	203,997	1,545.13
Cr 10,265	Reversal of Net Capital Charges	Cr 7,794	Cr 59.03
Cr 3,291	Interest on General Fund Balances	Cr 3,591	Cr 27.20
-	- Contribution to Carbon Neutral Initiatives Fund	875	6.63
-	- Contribution to Utilisation of New Homes Bonus for Housing	1,612	12.21
-	- Utilisation of Prior Year Collection Fund Surplus/Set Aside	5,900	44.69
11,155	Central Contingency Sum	12,622	95.60
	Levies		
452	- London Pensions Fund Authority*	470	3.56
249	- London Boroughs Grants Committee	248	1.88
249	- Environment Agency *	258	1.95
312	- Lee Valley Regional Park *	324	2.45
209,526	Sub Total	214,921	1,627.87
Cr 39,810	Business Rate Retention	Cr 40,426	Cr 306.20
Cr 581	Business Rate Levy	-	0.00
Cr 6,753	Collection Fund Surplus	Cr 5,900	Cr 44.69
Cr 2,531	New Homes Bonus	Cr 1,612	Cr 12.21
159,851	Bromley's Requirement (excluding GLA)	166,983	1,264.77

* Final allocations awaited

** There may be further amendments to reflect any changes to the Portfolio structure for 2020/21

Appendix 3

2020/21 CENTRAL CONTINGENCY SUM

£'000

General

Provision for Unallocated Inflation		4,059
General provision for risk/uncertainty		2,431
Provision for risk/uncertainty relating to volume and cost pressure		2,182
Increase in Cost of homelessness/impact of welfare reforms		1,825
Universal credit roll out - impact on claimant fault overpayment recoveries		750
Tackling Troubled Families Grant Income	Cr	628
Tackling Troubled Families Grant Expenditure		628
Growth for Waste services		587
Homeless Prevention funding	Cr	424
Set aside for Homeless Prevention Initiatives		424
Estimated Impact of McCloud Judgement		400
Adult Social Care Expenditure		210
Deprivation of Liberty		118
Rough Sleeping Initiative Grant Income	Cr	104
Rough Sleeping Initiative Grant Expenditure		104
Planning appeals - changes in legislation		60
		<u>12,622</u>

There will be further changes to the Central Contingency to reflect allocations to individual Portfolio budgets prior to publication of the Financial Control Budget.

LEVEL AND USE OF RESERVES AND ROBUSTNESS OF THE 2019/20 BUDGET**1. Background**

With the introduction of the prudential approach to capital investment, Chief Financial Officers in local authorities are required to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long-term revenue commitments. In considering the affordability of its capital plans, councils are required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. This requires clear and objective attention to the levels and application of the Council's balances and reserves. The level of balances and reserves needs to be adequate to ensure that the longer term stewardship of the Council's finances remains effective and the Council maintains 'sustainable' finances in the medium term. Medium term planning becomes absolutely key in recognition of the ongoing "structural" budget deficit facing the Council.

2. General Reserves

2.1. Bromley has estimated general reserves of £20.8 million as at 31st March 2020 (as reported to Executive on 27th November 2019), 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 £20.8m.
- 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 four years which should enable the current level of balances to be retained. This position depends on the cost of any future proposed scheme not currently included in the capital programme and is also affected by 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 more '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 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 01/04/19	Estimated Net Movement	Estimated Balance at 31/03/20	Estimated Movement	Estimated Balance at 31/03/21
	£'000	£'000	£'000	£'000	£'000
EARMARKED BALANCES					
LPSA/LAA Reward Grant Investment Fund	231	0	231	-75	156
Technology Fund	5,044	73	5,117	51	5,168
Town Centre Improvement Fund (LABGI)	55	0	55	0	55
Transformation Fund	2,208	-334	1,874	-700	1,174
Investment to Community (Resources)	372	-17	355	0	355
Works to Property	100	0	100	0	100
Planning Services Charging Account	166	-103	63	0	63
Government Grants (c/fwd from previous years)	6,845	-2,346	4,499	-2,898	1,601
Invest to Save Fund	17,084	975	18,059	670	18,729
One off Member Initiatives	891	-298	593	0	593
Infrastructure Investment Fund	1,690	-370	1,320	-249	1,071
Commissioning Authority Programme	365	0	365	0	365
Health & Social Care Initiatives – Promise Programme	3,953	0	3,953	-2,000	1,953
Housing Strategy Trading Account	25	0	25	0	25
Community Right to Bid & Challenge	46	0	46	0	46
Investment Fund	6,050	0	6,050	-6,050	0
Winter Pressures Reserve	2,010	0	2,010	0	2,010
Refurbishment of War Memorials	13	0	13	0	13
Key Health & Social Care Initiatives	1,700	0	1,700	0	1,700
Integration of Health & Social Care Initiatives	1,614	0	1,614	0	1,614
Collection Fund Surplus Set Aside	19,166	0	19,166	5,900	25,066
Healthy Bromley Fund	3,815	0	3,815	0	3,815
Glaxo Wellcome Endowment	132	-21	111	-7	104
Cheyne woods & Cyphers Gate	143	-1	142	-1	141
Public Halls Fund	7	0	7	0	7
Future Repairs of High Street Properties	55	12	67	12	79
Parallel Fund	2,903	0	2,903	0	2,903
Growth Fund	21,092	-2,326	18,766	-57	18,709
Health & Social Care Integrated Commissioning Fund	5,550	-2,000	3,550	0	3,550
Financial Planning & Risk Reserve	10,000	0	10,000	0	10,000
Bromley Welfare Fund	749	-214	535	-215	320
Payment in Lieu Reserve for Temporary Accommodation	149	27	176	27	203
Business Rate Risk Reserve	4,200	0	4,200	0	4,200
Sub Total B/fwd	118,423	-6,943	111,480	-5,592	105,888

Description	Balance at 01/04/19	Estimated Net Movement	Estimated Balance at 31/03/20	Estimated Movement	Estimated Balance at 31/03/21
	£'000	£'000	£'000	£'000	£'000
Sub Total C/fwd	118,423	-6,943	111,480	-5,592	105,888
Crystal Palace Park Improvements	26	-26	0	0	0
Various Joint Schemes and Pump Priming Investments	3,375	-1,781	1,594	-304	1,290
Transition Fund	2,560	0	2,560	0	2,560
Environmental Initiatives	467	-30	437	0	437
Planning/Planning Enforcement	197	-197	0	0	0
Apprenticeship Scheme	200	-55	145	-62	83
Civic Centre Development Strategy	457	-49	408	-306	102
Future Professional Advice for Commissioning	147	0	147	0	147
Utilisation of New Homes Bonus	2,256	0	2,256	0	2,256
Future Pensions Risk on Outsourcing	550	170	720	173	893
West Wickham Leisure Centre & Library Development	993	-993	0	0	0
Income Equalisation Reserve	2,594	0	2,594	0	2,594
Capital Funding for Property Disposal/Feasibility Works	79	-79	0	0	0
Biggin Hill Airport Project	124	-15	109	-15	94
Transformation Programme	500	0	500	-85	415
Housing Investment Fund	7,500	-500	7,000	-7,000	0
High Street & Parks Improvement Fund	115	0	115	0	115
Contribution to YES Funding for 2019/20	130	-130	0	0	0
Day Centre Rent Relief	76	-76	0	0	0
Housing Invest to Save	3,409	0	3,409	0	3,409
Sub Total	144,178	-10,704	133,474	-13,191	120,283
PROVISIONS					
Insurance Fund	3,984	30	4014	30	4044
OTHER					
School Budget Share Funds	1,757	-116	1641	0	1641
Total Reserves	149,919	-10,790	139,129	-13,161	125,968
New Reserves Subject to Final Approval					
Provision for Education Risk Reserve	0	0	0	500	500
IBCF Hospital Discharge Funding Reserve	0	0	0	1,677	1677
Carbon Neutral Initiatives	0	0	0	875	875
New Homes Bonus funding for Housing Investment	0	0	0	1,612	1612
Total Estimated Reserves	149,919	-10,790	139,129	-8,497	130,632

3.2 The report highlights the ongoing 'budget gap' (see 5.1 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 few 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. Further opportunities will be explored to provide invest to save to mitigate against the significant cost pressure of homelessness. 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 31/3/19 was reported to Pensions Investment Sub Committee on 30st January 2020 and General Purposes and Licensing Committee on 11th February 2020. The Council's pension fund is now fully funded. The triennial actuarial valuation impacts on the budget from 2020/21 to 2022/23. The Council has received national awards recognising the outstanding investment performance of its pension fund.

4 Budget Assumptions

4.1 Treatment of Inflation and Interest Rates

4.1.1 Despite the previous increase in the Bank of England base rate from 0.50% to 0.75%, there had 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 had previously been revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks. 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 – Annual Investment Strategy 2020/21 and Quarter 3 Performance 2019/20' report to Executive, Resources and Contracts PDS Committee on 5th February 2020.

4.1.2 A general allowance of 2.3% per annum has been built into the Draft 2020/21 Budget and financial forecast with an assumed 2.5% in future years.

4.1.3 The 2020/21 Budget includes an across the board pay increase of 2.5% for Council staff with additional changes for staff on lower scale points (inclusive of the 2.5%), as announced by the Portfolio Holder for Resources, Commissioning and Contract Management at the last meeting of Executive. Further details are being reported to General Purposes and Licensing Committee on 11th February 2020.

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 2019/20 and Capital Strategy 2020 to 2024' report elsewhere on the agenda.

4.3 Budget and Financial Management and 'Demand Led' Budgets

4.3.1 Bromley has for many years operated multiyear budget planning. The need to meet budget savings has reduced the frequency of budget monitoring. The budget has been prepared to reflect commissioning plans of service areas but also recognising the need to identify mitigation action, where possible, recognising the 'budget gap' for the Council.

4.3.2 The major demand led services that currently affect Bromley's budget are homelessness, education (high needs), adults and children's social care. Cost/growth pressures impacting on education, housing, adults and children's social care have been quantified together with the mitigation of costs which have been reflected in the Draft 2020/21 Budget and financial forecast which are summarised below with more details reported to the previous meeting of Executive:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Growth/cost pressures	12,302	19,282	24,488	29,593
Mitigation	-5,071	-7,827	-13,374	-16,852
Net additional costs	7,231	11,455	11,114	12,741

4.3.3 It remains essential that there is the ongoing scrutiny and review of growth/cost pressures, with options to help achieve a balanced budget, including any mitigation over the financial forecast period.

4.3.4 The draft 2020/21 Budget includes reasonable estimates of likely changes in activity in the next financial year. It is important that Chief Officers identify mitigating action to address any in year cost pressures or other mitigation savings not realised to remain within their 'cash envelope'.

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 Financial Information and Reporting

- 4.5.1 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.
- 4.5.2 The Council will need to continue with the Transformation Programme addressing budget pressures and identifying saving options (details reported to last meeting of the Executive), as well providing many positive transformational benefits.

4.6 Virement Procedures

- 4.6.1 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.

4.7 Risk areas

- 4.7.1 Details were reported to the previous meeting of the Executive.

4.8 Link with other plans/strategies

- 4.8.1 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).

4.9 Insurance Fund

- 4.9.1 The insurance fund is protected by the existence of external catastrophe insurance, which meets large claims. There is a significant financial stop loss 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 2018/19', considered by the Resources, Commissioning and Contracts Management Portfolio Holder at the meeting of the Executive and Resources PDS Committee on 9th October 2019, gives more background information.

4.10 Funds and the adequacy of provisions

- 4.10.1 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 £16.9m by 2023/24, 'balance sheet' liabilities combined with the ongoing cost/growth pressures facing the Council. 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.
- 4.10.2 The scale of the medium term "budget gap", coupled with the significant financial uncertainty arising from the review of local government finance 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), housing invest to save opportunities and other investment options 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.

4.11 Council's Investment Income contributing to supporting key services

4.11.1 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 are reported quarterly to the Executive. At its meeting on 19th July 2017, Executive approved the following 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.

4.11.2 The strategy of generating additional investment income provided funding for key services thus enabling a corresponding reduction in the Council's budget gap.

4.11.3 The Council's investment income of £14.9m, assumed in the 2020/21 Budget, is shown below:

	£'m
Investment properties and rental income	11.3
Treasury Management Income	3.6
Total investment income	14.9

4.11.4 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 helped 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. Utilisation of the remaining

uncommitted Growth Fund and Investment Fund will be prioritised for housing investment at this stage.

4.11.5 Details of the approach to treasury management is being reported to Executive, Resources and Contracts PDS meeting on 5th February 2020. The Treasury Management Strategy has previously been revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks. Additional income of £300k has been assumed in the 2020/21 Budget. 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.



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Appendix 5

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Local Government Finance Settlement Team
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
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17th January 2020

Email: LGFsettlement@communities.gov.uk

Dear Sir/Madam

Provisional Local Government Finance Settlement 2020-21

The London Borough of Bromley welcomes the opportunity to comment on the Provisional Local Government Finance Settlement 2020-21. It is important that this response is considered in the wider context of historic local government funding cuts and increasing demand for our services.

We welcome the additional funding confirmed in the Provisional Settlement, following on from the 2019 Spending Round (SR19). The certainty on funding streams for 2020/21 assists in planning for next year's budget decisions and helps to reduce the impact on services next year. Although it provides a one year settlement with uncertainty remaining from 2021/22, it is a positive outcome.

In terms of meeting the budget challenges in future years, the Council faces significant cost pressures relating to homelessness, educational high needs, adults and children's social care. Even if the level of government grant funding available to the Council no longer reduces, these cost pressures, partly linked to demographic changes, need to be funded which results in an ongoing need to address a significant 'budget gap' that cannot be met by council tax increases alone.

There is national recognition that Social Services is underfunded. One of Bromley's high cost pressure relates to adult social care and it remains essential that a fundamental solution is found to address its funding. The Prime Minister has recognised the need to address this and his comments, reported in the press on 14th January 2020, indicate that action will be taken to address the significant funding issue.

We therefore seek that the next year's Spending Review provides sustainable funding solutions, recognising the significant cost pressures facing Bromley as well as many other local authorities.

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 Fairer Funding deal for Bromley are:

- Fair Funding should have a mechanism to reward more efficient authorities (e.g. financial incentives in the system);
- Fair Funding should 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;
- Fair Funding needs to recognise higher London costs which impacts on service costs and the financial impact of need. Bromley has one of the lowest Area Cost Adjustments for the London area and this needs to be reviewed more closely to reflect that, for example, costs in Bromley are as high as the South West of London;
- Resource element of any funding baseline should not reflect a notional council tax which may be higher than current council tax levels for Bromley;
- Some form of 'damping' protection would be needed to assist in forward planning;
- Authorities with a low cost baseline should not have faced a higher proportion of cuts to funding as part of ongoing austerity and this should be recognised/compensated in any future funding arrangements;
- Need to avoid the situation where low council tax authorities do not need to increase council tax as they have a more generous settlement than other comparable authorities;
- Social Care responsibilities (Improved Better Care Fund) should be determined by adult social care formula (e.g. Bromley had lost potential funding of up to £3m from 2019/20) using the revised formula;
- We are experiencing increased pressures on our homelessness budgets through rising demand and higher costs. The impact of the benefit cap and LHA levels remaining low 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. Fair Funding should recognize London's cost pressures relating to homelessness - pressures mainly relating to London and a few other areas;

- 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 of age (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 MHCLG 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?

We 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 reduced flexibility of funding for special educational needs and, whilst the additional High Needs funding is welcomed, there remains medium term potential placement costs being ultimately met by the council tax payer rather than through schools funding. Extension of legal duties, without additional funding being provided, has increased the cost pressure for the high needs service. This is coupled with the anomaly where the council tax payer is required to fund special educational needs transport costs of £5.3m per annum which should logically be funded through education funding as it is part of the overall SEN package of costs.

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 move to 75% business rate retention locally 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.

New burdens doctrine was expected to be transparent in recognising and funding additional cost pressures for local authorities arising from changes in government policy. Some of the cost pressures include new burdens such as, for example, no recourse to public funds, automatic enrolment, extended support to care leavers to age of 25 years old, the lifting of the public sector pay cap, indexation and equalisation of guaranteed minimum pensions, deprivation of liberty, changes to national insurance costs, national living wage and, more recently, the Homelessness Reduction Act which have only been part funded. The new burdens have not been adequately funded, if at all. MHCLG have recognised some of the pressures on adult social care and provided some limited flexibility to use grant funding for children's social care as well as the continuation of the Adult Social Care Precept for 2020/21. However, the further cost pressures on children's social care and homelessness (consequence of welfare

reform, impact of limiting local housing allowances and potential implications of universal credit) have not been fully recognised and have resulted in a significant additional cost burden which is not recognised by the funding provided.

Looking further ahead, Bromley would still face a period of significant uncertainty with the awaited Fair Funding Review, the move to 75 percent Business Rates Retention and the 2020 Spending Review which could represent a new 'cliff edge' in financial planning terms. We ask that the precedent of early sight of funding allocations that has been set by SR 19 be continued as far as possible next year.

We support the need for the future funding system to be less complex, transparent, provide certainty and be responsive to changes in demand. The key outcome needs to be adequate funding for the future sustainability of Bromley to meet the key services that matter to our residents and taxpayers. As the National Audit Office reported, as part of its Financial Sustainability of Local Authorities 2018 report, the Government 'must set out at the earliest opportunity a long-term financial plan for the (local government) sector that includes sufficient funding to address specific service pressures and secure the sector's future financial sustainability'.

Local Government has borne the brunt of austerity and savings compared with other areas of Government expenditure. Although recent Spending Round announcements are helpful we need a sustainable medium term settlement at next year's full Spending Review.

The huge funding pressures on adult social care, children's services, high needs and homelessness need sustainable funding solutions.

The responses to the specific questions are attached.

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.

We have previously raised our concerns 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. It remains essential that any whole solution that provides a sustainable platform for the future includes resource equalisation and transitional arrangements.

Bromley's local MPs have highlighted concerns about an ongoing poor financial settlement for Bromley and the need for a fairer system that rewards efficient low cost councils and provides a 'fairer' level of funding in recognition of the needs of residents and council taxpayers. Rt. Hon. Bob Stewart MP made comments in Parliament, following the 2018/19 Local Government Finance Settlement, and more recently Jo Johnson (previously MP for Orpington) and Rt. Hon. Bob Neill MP made comments following the 2019/20 Local Government Finance Settlement.

Jo Johnson referred to 'it is time to adjust our local authority's (Bromley) baseline, to reflect the fact that it has made enormous efficiencies in order to absorb a 50% real-terms cut over the past four years, and to reward it for being one of the most efficient local authorities in the country'. Rt. Hon. Bob Neill referred to 'Bromley has been historically a low cost authority, and credit must go to the Conservative-led Bromley Council, which has made savings of around £97million per annum since 2011-12. However, because it has been efficient historically, there is really no fat left for it to cut, and because of the way the system works at the moment, there is no reward for efficiency'.

As a low grant funded borough, the current formula does not reflect the required assessment of need for our borough. There are some local authorities with high spend but this reflects a high level of historic government funding rather than the correct needs assessment. The outcome can result in high costs and inefficiency rather than spend levels matching true need - the opposite applies to Bromley. Apart from a fairer level of funding the Council is seeking that future funding arrangements reward/incentivise more efficient boroughs such as Bromley.

A combination of historic 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 meeting inflation costs means it is becoming increasingly difficult to sustain the scale of funding reductions imposed on us. During the period 2010/11 to 2019/20 we have faced government core grant reductions of around £77m per annum. Although the additional funding announced as part of SR19 is welcomed there remains uncertainty on funding levels beyond 2021/22 which makes medium and long term financial planning more problematic.

Bromley faced a four year "budget gap" of around £32m by 2022/23 but the recent additional funding as part of the Spending Round improves that position to a potential "budget gap" of an estimated £17m per annum within 4 years – although a greatly improved position a significant "budget gap" remains. London Councils and Local Government Association (at the national level) have reported that significant savings are required by local authorities to plug the funding gap which is not sustainable in the longer term without further significant funding.

There were 1,335 statutory duties as at June 2011, identified by the National Audit Office. There has been no overall reduction in statutory duties to date despite overall significant funding reductions. This provides a greater challenge for a low cost authority like Bromley. This highlights the importance of considering the full impact of any changes affecting local government. The Government should consider reviewing the role and duties of local government to match the potential resources available.

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.

In 2019/20 Bromley has the 2nd lowest level of settlement funding in the whole of London despite having the 6th highest population (excluding City of London). We are the largest London Borough in terms of geographical size, have the highest proportion of older people and the largest road network. The associated cost implications are not reflected in our settlement funding. If we received the average level of grant funding, our income would increase by £62m in 2019/20. It is essential that MHCLG reflect an adjustment to the Council's baseline funding position to address historic low funding levels in the new Fair Funding arrangements.

Bromley's core funding has been cut by more than the London and England average since 2010/11. Prior to the outcome of the 2019 Spending Round, it would have reduced by 75% compared with 63% (London and England) in real terms over the course of the decade.

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. The next Spending Review needs to consider the funding requirements for local government to meet key services that matter to our residents and taxpayers and linked with the Fair Funding Review. There should not be an outcome that simply results in a redistribution of existing government funding without considering the impact of cost pressures and new burdens and the limitations in generating alternative income. While the Fair Funding Review is a welcome opportunity to address the best method to distribute resources, there is no escaping the inadequacy of the resources it distributes when compared with the totality of demand - the Spending Review is a key opportunity to put local government on a sustainable footing. Local government has received a disproportionate share of funding reductions when compared with total public and departmental spending.

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 2020/21 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 and Housing. 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.

If central government is not prepared to increase the total of centrally allocated resources available, then it needs to give local government greater control over its own resources, enhance its range and mixture of revenue raising capabilities and remove ringfencing of remaining grant funding.

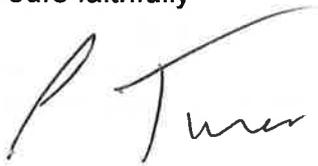
We appreciate being able to contribute to the consultation and welcome the additional funding. If next year's Spending Review and Fair Funding enables a more sustainable funding approach it would be welcomed and enable the Council to provide key services to its residents, support the Government's objectives and support the local economy with a resultant benefit on national economic growth which is key to providing revenues to Government to support services that matter to tax payers and council tax payers.

The Government previously introduced four year funding which was welcomed but we now face a situation of significant uncertainty of funding for 2021/22 and beyond. There needs to be sufficient time to plan for 2021/22 and future years and a key consideration for financial planning is the level of Government funding available. Any early indications of the impact on individual authorities, including the distributional impact of the different elements within the formula will be needed and would assist in financial planning and reducing financial uncertainty. It is important to recognise that no organisation of any size can be expected to operate efficiently without multiple years assurance about its level of funding – this would include any government funding.

To allow for sufficient time to meet statutory council tax deadlines and our annual billing deadlines, it is important that the final 2020-21 Local Government Finance Settlement is published before Parliamentary Recess in mid- February 2020.

Both Members and Officers remain keen to work with the Government to help find positive solutions that work for our residents and taxpayers to meet future service priorities in the shorter term as well as the longer term. Bromley Council appreciates the opportunity to respond to the consultation on the 2020-21 Provisional Local Government Finance Settlement.

Yours faithfully

A handwritten signature in black ink, appearing to read 'P Turner', written in a cursive style.

Peter Turner
Director of Finance
London Borough of Bromley

Responses to Consultation Questions

Question 1: Do you agree with the Government's proposed methodology for the distribution of Revenue Support Grant in 2020-21?

Given the limited timescale and the awaited Fair Funding Review, we recognise that the proposed approach to distributing RSG is a reasonable interim measure.

Question 2: Do you agree with the Government's proposal to eliminate negative RSG?

Bromley was facing a negative RSG adjustment and the additional funding the Government has found is welcome. Low cost and well run authorities should not be penalised with a negative RSG requirement.

The Fair Funding Review reforms are essential to the effective delivery of important services to the public and must provide a robust system for ensuring that resources are allocated accordingly.

Question 3: Do you agree with the proposed package of council tax referendum principles for 2020-21?

Bromley continues to oppose the 'capping' of council tax increases through the mechanism of referendum principles. Council tax is the only locally determined tax and local authorities must have full flexibility in how it is used as well as how it is set that strikes the appropriate balance between local resources and needs. 'Capping' restricts local decision making.

If there is to be a continuation of the ASC precept in future years (only 2020/21 has been announced), we would urge the Government to allow flexibility for it to be spent on both adult and children's social care as most London boroughs are experiencing large funding pressures in children's social care as well as in adults.

Question 4: Do you agree with the Government's proposals for the Social Care Grant in 2020-21?

The additional funding for social care is welcome and much needed. We also welcome the removal of the ringfence from the Winter Pressures funding that will be rolled into iBCF, and the fact that the Social Care Grant will not be ringfenced, and conditions or reporting requirements will not be attached.

However, Bromley disagrees with the proposed method for distributing funding for both children and adult social care using solely the adult social care RNF. If the intention is for this funding to alleviate pressure on both adult and children's social care, it's distribution should reflect relative levels of needs in both services. We urge the Government to set out why it is not using the existing children's social care RNF.

There is an inconsistency in the proposed allocation method for the new £1 billion of Social Care Grant, with £150 million being used to equalise for what can be raised in ASCP. If the precept remains solely for adult social care, and the support grant for both children's and adult social care, this is effectively reducing the funding available for children's social care pressures.

More broadly, the various different funding streams and accompanying distribution methodologies and reporting frameworks illustrate how there has been a systemic failure in funding of adult social care and of local government in general. We urge the government to deliver a sustainable funding solution to adult and children's social care by SR20, to prevent the current piecemeal and complex funding approach.

Question 5: Do you agree with the Government's proposals for iBCF in 2020-21?

Bromley agrees with the proposal to continue existing iBCF funding for 2020-21 at 2019-20 levels. We also welcome the continuation of the Winter Pressures Grant, the removal of its ringfence and it being rolled into the iBCF. It remains unclear whether the reporting requirements for the funding previously for Winter Pressures will now be the same as the iBCF and we request that this be confirmed in the final settlement.

Question 6: Do you agree with the Government's proposal to fund New Homes Bonus in 2020-21 with the planned £900m from Revenue Support Grant, with additional funding being secured from departmental resources, and to allocate the funds in line with previous years but with no legacy payments?

We welcome the proposed new round of New Homes Bonus allocations in 2020-21, but are disappointed that any new allocations will not result in legacy payments being made in subsequent years. There has been a long series of adjustments over the years that have reduced the incentive provided by the bonus. The number of years for which New Homes Bonus payments are made has been reduced from 6 to 4 years combined with the introduction of a national baseline for housing growth of 0.4% of council tax base from 2017-18 which further reduced any incentive. We are pleased to note that there is no longer a proposal to increase the baseline threshold in the 2020-21 provisional settlement.

We welcome the commitment to consult widely on any future reforms to the New Homes Bonus from 2020/21 and would urge the Government to provide certainty over the future of the scheme as soon as possible and retain a realistic incentive to local authorities if the scheme continues in the medium to longer term.

Question 7: Do you agree with the Government's proposed approach to paying £81m Rural Services Delivery Grant in 2020-21 to the upper quartile of local authorities, based on the super-sparsity indicator?

Bromley disagrees with the provision of additional funding to rural areas, through this mechanism. The existence of the Rural Services Delivery Grant is based on an unclear evidence base. All funding allocated through this separate grant could otherwise have been distributed more fairly across all local authorities in England on the basis of proven need. Bromley requests that the evidence base behind this decision is shared openly.

The additional funding for rural areas raises questions about the adequacy of funding for urban areas. If the Government is minded to further recognise some of the financial pressure on rural authorities, we believe that it is reasonable to expect further consideration to be given to the unique pressures faced by authorities such as Bromley.

Question 8: Do you have any comments on the impact of the proposals for the 2020-21 settlement outlined in this consultation document on persons who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide evidence to support your comments.

Bromley has no comment to add.