

**Report No.  
FSD21008**

## **London Borough of Bromley**

### **PART 1 - PUBLIC**

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**Decision Maker:** **Executive**

**Date:** **10th February 2021**

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

**TITLE:** **2021/22 Council Tax**

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

**Ward:** Borough wide

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### **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 are reported elsewhere on this agenda.
- 1.2 The Provisional Local Government Finance Settlement 2021/22, which covers 2021/22 only, provides the second year (following 10 years of austerity) of real increases in funding although this is mainly reliant on the utilisation of the ASC precept to support cost pressures in social care. It has also provided funding towards the cost of the Covid pandemic continuing in part of 2021/22.
- 1.3 Although the settlement is to be welcomed there remains uncertainty around the level of Government funding for 2022/23 and beyond, particularly as the Government will need to address the significant increase in public debt due to the pandemic. The longer-term Spending Review has been postponed for a further year (until 2022/23) together with the outcome of the Fair Funding Review and Devolution of Business Rates.
- 1.4 This report identifies the final issues affecting the 2021/22 revenue budget and seeks recommendations to the Council on the level of the Bromley element of the 2021/22 Council Tax and Adult Social Care precept. Confirmation of the final GLA precept will be reported to the Council meeting on 1<sup>st</sup> March 2021. 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 2021/22 but to have measures in place to deal with the medium term financial position (2022/23 to 2024/25).

- 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. The financial forecast assumes that the level of core grant funding will remain unchanged in future years.

## **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 recoupment;**
- (b) Approves the draft revenue budgets (as in Appendix 2) for 2021/22;**
- (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 13<sup>th</sup> January 2021;**
- (d) Approves a contingency sum of £14,925k (see section 6);**
- (e) Approves the following provisions for levies for inclusion in the budget for 2021/22;**

	<b>£'000</b>
<b>London Pension Fund Authority*</b>	<b>464</b>
<b>London Boroughs Grant Committee</b>	<b>247</b>
<b>Environment Agency (Flood defence etc.) *</b>	<b>262</b>
<b>Lee Valley Regional Park *</b>	<b>321</b>
<b>Total</b>	<b>1,294</b>

**\* Provisional estimate at this stage**

- (f) Notes the latest position on the GLA precept, which will be finalised in the overall Council Tax figure to be reported to full Council (see section 12);**
- (g) Considers the “Bromley element” of the Council Tax for 2021/22 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 levels 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 1<sup>st</sup> March 2021.**

## 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

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## Financial

1. Cost of proposal: N/A
  2. Ongoing Costs: Recurring costs – impact in future years detailed in Appendix 1
  3. Budget head/performance centre: Council wide
  4. Total budget for this head £175m Draft 2021/22 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 2021/22 Financial Control Budget to be published in March 2021
  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 2021/22 budget reflects the financial impact of the Council's strategies, service plans etc. which impact on all of the Council's customers (including council taxpayers) and users of the services.

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## 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 The 'Draft 2021/22 Budget and Update on the Council's Financial Strategy 2021/22 to 2024/25' was reported to the Executive on 13<sup>th</sup> January 2021. Key matters reflected in the report included:

(Please note appendices and sections shown below refer to the report to the meeting of the Executive on 13<sup>th</sup> January 2021)

- (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 2021/22 (Appendix 2);
- (c) Council Tax Levels and Government Funding per Head (Appendix 3);
- (d) Latest Financial Forecast (Section 5 and Appendices 5-6);
- (e) Changes since the 2020/21 Budget that impact on the Financial Forecast (Section 6);
- (f) Detailed Draft 2021/22 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 8).

All of the above should be considered with this report as part of finalising the 2021/22 Budget and council tax levels.

### **4. 2021/22 DRAFT BUDGET AND CHANGES SINCE LAST MEETING OF THE EXECUTIVE**

- 4.1 The last report to the Executive identified a balanced budget in 2021/22, assuming an increase in council tax and adult social care precept of 4.99%, and a 'budget gap' of £14.1m by 2024/25. The main updates are shown below:

- (a) The final Local Government Financial Settlement 2021/22 is still awaited (expected mid February 2021) and any updates will be provided at the meeting;
- (b) Various government grant allocations are still awaited. This includes, for example, Rough Sleepers Initiative, Better Care Fund, Independent Living Fund and Public Health Grant. Any changes to be announced, compared with the 2021/22 Budget, will be reflected in an updated 2021/22 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:

<b>Variations Compared with 2020/21 Budget</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Changes in Government Core Funding</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.4</b>
<b>Cost Pressures</b>				
Increased costs (2% per annum)	5.5	11.3	17.1	23.1
Reinstatement of highways maintenance (previously capitalised)	0.0	2.5	2.5	2.5
<b>Total Additional Costs</b>	<b>5.5</b>	<b>13.8</b>	<b>19.6</b>	<b>25.6</b>
<b>Income / Savings</b>				
Interest on balances	0.0	1.0	1.5	1.5
Release general provision in contingency for significant uncertainty/variables	-1.7	-3.7	-3.7	-3.7
Savings from children's social care linked to invest to save funding	-0.3	-0.3	-0.3	-0.3
Adult social care and children's social care grant	-0.3	-0.3	-0.3	-0.3
Homelessness Prevention grant	-0.3	-0.3	-0.3	-0.3
Transformation Savings	-3.6	-6.0	-6.3	-6.4
Freedom pass saving/reduced usage in 2020/21	-2.2	-3.3	-1.8	0.0
<b>Total Income / Savings</b>	<b>-8.4</b>	<b>-12.9</b>	<b>-11.2</b>	<b>-9.5</b>
<b>Other Changes (includes use of non-recurring funds)</b>				
Real Changes and other Variations	0.3	1.1	0.6	0.9
Carbon Neutral Initiatives Fund	-0.9	-0.9	-0.9	-0.9
<b>Total Other Changes</b>	<b>-0.6</b>	<b>0.2</b>	<b>-0.3</b>	<b>0.0</b>
<b>COVID Funding</b>				
Additional cost pressures - COVID impact in 2021/22	8.0	0.0	0.0	0.0
Additional Funding to support further COVID cost impact in 2021/22	-8.0	0.0	0.0	0.0
	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Council Tax</b>				
Assumed increase in council tax base number of prop. offset by increase in council tax support claimants	0.0	0.0	0.0	-0.7
Increase in cost of Council tax support (funded by grant)	2.3	0.0	0.0	0.0
Government funding towards additional council tax support costs	-2.3	0.0	0.0	0.0
Increase in council tax (assume 1.99% per annum)	-3.3	-6.7	-10.2	-13.7
Impact of Adult Social Care Precept (assume 3% per annum)	-5.0	-5.0	-5.0	-5.0
Projection of future year collection fund surplus	0.0	-2.0	-1.0	0.0
Provision for unrecoverable 2020/21 council tax collection losses - COVID	2.2	2.2	2.2	0.0
Government funding for 2020/21 council tax collection losses - COVID	-1.6	-1.6	-1.6	0.0
<b>Total Council Tax</b>	<b>-7.7</b>	<b>-13.1</b>	<b>-15.6</b>	<b>-19.4</b>
<b>Growth/Cost Pressures including mitigation (see Appendix 6)</b>				
Education	0.9	1.2	1.6	1.9
Children's Social Care	2.8	2.2	2.9	3.4
Adult Social Care	5.5	7.4	9.5	11.7
Housing	1.7	0.2	-1.2	-1.7
Environment	2.3	2.1	1.6	1.1
Reduction in investment property income	1.2	1.1	1.2	1.4
Building Maintenance	1.0	1.0	0.0	0.0
Part funding for loss of fees and charges income (COVID)	-0.5	0.0	0.0	0.0
<b>Total growth/cost pressures</b>	<b>14.9</b>	<b>15.2</b>	<b>15.6</b>	<b>17.8</b>
<b>Sub-total</b>	<b>3.3</b>	<b>2.8</b>	<b>7.7</b>	<b>14.1</b>
<b>Use of previous Collection Fund Surplus to meet budget gap</b>	<b>-3.3</b>	<b>-2.7</b>	<b>-5.1</b>	<b>0.0</b>
<b>Remaining "Budget Gap"</b>	<b>0.0</b>	<b>0.1</b>	<b>2.6</b>	<b>14.1</b>

5.2 The above table shows, for illustrative purposes the impact of a council tax increase of 4.99% in 2021/22 (including adult social care precept). Each 1% council tax increase generates on-going annual income of £1.7m. The financial forecast assumes that any future increases in the Adult Social Care precept cease beyond 2021/22. It should be

noted that the current legislation only provided powers for this precept until the end of 2021/22.

- 5.3 These variations are subject to any final decision on Council Tax levels. Appendix 2 derives an illustrative 'Bromley element' Council Tax of £1,327.86 (1.99% general increase plus 3% adult social care precept) and Appendix 3 includes the Draft 2021/22 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 2020 Spending Review.
- 5.5 The above table highlights that, although it has been possible to achieve a potential balanced budget for the next two years even after allowing for significant cost pressures there remains a "budget gap" of £2.6m in 2023/24 rising to £14.1m per annum in 2024/25. The projections in later years have to be treated with some caution, particularly as the Government's 'Fair Funding' review and Spending Review (multi year) combined with the awaited outcome of the review of business rates income is expected to be implemented from 2022/23 which will include the revised levels of funding for individual local authorities.
- 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 taxpayers. 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 1st March 2021 for the finalisation of the Council Tax, to reflect latest available information on levies and the final GLA precept.
- 5.8 Even though the draft budget would be broadly balanced next year, the future year's budget gap is projected to increase to £14.1m per annum by 2024/25. Without any action to address the budget gap in future years, reserves will need to be used with the risk of the budget gap increasing in future years and becoming unsustainable.
- 5.9 The reasons for the budget gap by 2024/25 include, for example:
- (a) inflation pressures partly offset by assumed council tax increase (1.99% per annum) and social care precept (2021/22 only) of 3% leaving a balance required of £4.4m;
  - (b) Growth/cost pressures of £51.7m, partly offset by mitigation of £33.9m, resulting in a net additional cost of £17.8m;
  - (c) Impact of reinstatement of highways maintenance of £2.5m per annum to revenue budget (previously capitalised);
  - (d) Full year effect of the Phase 1 Transformation Savings (£1.5m in 2021/22 increasing to £2.0m per annum in 2024/25);

- (e) Phase 2 Transformation Savings of £2.1m in 2021/22 increasing to £4.4m per annum in 2024/25;
- (f) Savings from reduction in the Council's provision for risk/uncertainty held within the Central Contingency Sum (saving of £3.7m per annum);
- (g) Other variations of £0.5m (income).

5.10 The above variations assume that there will not be Government funding reductions over the next four years and that the planned mitigation of growth pressures (see (b) above) is realised.

5.11 In the financial forecast, after allowing for inflation, council tax income and other changes, there is an unfunded budget gap from 2023/24 due to net service growth/cost pressures and the fall out of one-off funding. 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 must consider what level of growth the council can afford and the need for significant mitigation or alternative transformation options.

## **6. DRAFT 2021/22 CENTRAL CONTINGENCY SUM**

6.1 Details of the 2021/22 Draft Contingency Sum of £14,925k 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 2021/22 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 2021/22 Budget.

6.3 The updated financial forecast assumes the release of £1.7m in 2021/22 and £3.7m 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 estimated general reserves remaining of £19.9m as at 31/3/2021. A full breakdown of reserves, including earmarked reserves, is detailed in Appendix 4.

## **8. 2020/21 BUDGET MONITORING AND COVID IMPACT**

- 8.1 The key challenge is the cost of the impact of Covid-19 and the extent to which the Government funds the net cost to the Council. Examples of the financial impact include:
- (a) Additional costs relating to direct support, enhancements to contract prices during this interim period (where necessary), additional staffing support, provision of new services, mortuary costs etc;
  - (b) Planned budget savings which cannot be delivered during this period;
  - (c) Loss of income which includes, for example, car parking and enforcement, business rates, council tax collection, rent income from investment properties and treasury management.
- 8.2 The latest financial monitoring position reported to the Leader, following pre scrutiny by Executive, Resources and Contracts PDS Committee on 18th November 2020, showed an overall net overspend of £1,538k within portfolio budgets and a £2,595k credit variation (savings/income) on investment income, central items and prior year adjustments. This represents the impact of the first six months of the financial year and the full year impact of 2019/20 outturn. The most significant financial risk to the Council is the Covid-19 impact.
- 8.3 The Draft 2021/22 Budget report to the previous meeting provided details of the latest Covid financial position. The financial impact will continue to be monitored on a monthly basis and the Council will continue to seek additional Government funding to reduce the impact on local council tax. The 2021/22 Draft Budget includes specific net additional costs/income losses of £4.1m relating to Covid, compared with the 2020/21 Budget plus additional costs of £2.3m to reflect increased council tax caseloads (funded by Government) and a general provision of £7.8m to meet any further costs not specifically identified in the Draft 2021/22 Budget at this stage – the sum of £7.8m matches the level of additional Government funding provided to meet these uncertain costs. There will be the costs relating to the Covid impact in 2021/22 as well as the impact of the ‘new normal’ following the Covid situation. The longer-term impact is expected to result in additional cost pressures, in part, to reflect the impact of a global recession. There will be a global recovery but realistically that may not materialise until at least 2022/23. Apart from the additional costs arising from a recession which can range from council tax support and additional services for vulnerable residents etc, there is likely to be a significant impact on the Council’s income. The Council has sought funding support on the ‘new normal’ impact for future years as reported to the previous meeting of the Executive. The financial impact in 2021/22 (as well as future years) remains unclear at this stage. This will need to be monitored closely.

## 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:-

<b>PROVISIONAL DSG FUNDING</b>					
	<b>Schools</b>	<b>High Needs</b>	<b>Early Years</b>	<b>Central</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
2020/21	218,401	53,042	23,055	1,920	296,418
2021/22	237,832	58,729	23,343	2,134	322,038
Variation	<b>19,431</b>	<b>5,687</b>	<b>288</b>	<b>214</b>	<b>25,620</b>

- 9.3 The Schools Block has risen by £19.4m. This is due to an increase in the per pupil unit of funding and increases in the population figures. There is also an element (around £11m of the increase) that relates to teachers pay and pension increases that were paid through specific grants and are now integrated into the overall Schools DSG block calculation.
- 9.4 The High Needs Block is seeing pressures coming through the system. Nationally the Government were seeing some authorities building up high levels of deficit reserves. This particular funding issue was acknowledged, and funding was committed for 2021/22. The DSG allocation resulted in an increase in high needs block funding of £5.7m for Bromley. This was due to the increases in per pupil funding and the increase in pupils themselves. £939k of the increase relates to pay and pension increases that were paid through specific grants and are now integrated into the overall High Needs block calculation.
- 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, with the 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 2022/23.
- 9.6 Early Years funding has increased by £288k. This is due to increases in the allowances for hourly rates payable. Last year's population figures are being used. Early Years DSG is adjusted in year to take account of take up during the year, so the figure will change as the year progresses.
- 9.7 The Central Block has increased by £214k. Although the per pupil rate fell by 2.5% (the equivalent of a loss of £48k), £242k of additional grant was received due to the pay and pension specific grant allocation for centrally employed teachers now being integrated into the DSG. The remaining increase of around £20k is due to the increase in pupil numbers. There continues to be pressures in the Central Schools DSG due to funding shortfalls. Last year the Council used £360k of core LBB funding to underpin this expenditure. A further £50k is being proposed for 2021/22 bringing the total Council core funding to £410k.

- 9.8 The use of DSG is subject to consultation with the Schools Forum and this was reported to the Children, Education and Families Budget Sub-Committee on the 19<sup>th</sup> January 2021. 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 1st March 2021. 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 forecast assumes that the collection fund surplus in 2018/19 of £5.9m has been used to support the revenue budget in 2022/23 and 2023/24.
- 11.3 The collection fund had a non-recurring surplus of £6.5m reflected in the 2019/20 Provisional Final Accounts report to the Executive, Resources and Contracts PDS on 27<sup>th</sup> May 2020. The surplus was achieved mainly through good debt recovery levels, an increase in new properties in the borough and the ongoing impact of actions in response to the data-matching exercise on single person discounts. A sum of £5.15m will be allocated to the Council, with the £1.35m going to the Greater London Authority. The financial forecast assumes that the surplus will be used towards reducing the Council's budget gap in 2021/22 (£3,242k) and in 2023/24 (£1,911k) – this reflects an approach adopted previously to smooth out future years budget gaps.
- 11.4 As a result of the financial pressures associated with the Covid 19 pandemic (including irrecoverable losses through payment failure and an increase in support claimants), the Council is likely to face a worsening financial position on the 2020/21 collection fund. In recognition of this, the government has agreed that deficits arising only in 2020/21 will be spread over the following three years rather than the usual period of a year. On this basis, the draft budget recognises estimated irrecoverable council tax losses of £2.191m for each of the next three years, though this will be compensated by government at a rate of 75% resulting in an estimated net loss of £548k per annum, after funding.
- 11.5 The financial forecast also assumes additional income of £2m in 2022/23 reducing to £1m by 2023/24, with no additional income in 2024/25.
- 11.6 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 2021/22 Draft Budget has been issued for consultation and the Mayor of London announced a proposed increase of 9.5% in the existing GLA precept levels for 2021/22. This will be subject to confirmation from government that such increases will fall within referendum limits. The final GLA precept for 2021/22 is expected to be announced after the Assembly has considered the Mayor's draft consolidated budget on 25th February 2021.

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

- 13.1 The latest estimated general fund (revenue) balance at 31st March 2021, as shown in the 'Budget Monitoring 2020/21' report, considered by the Leader, following pre scrutiny by E,R&C PDS on 18<sup>th</sup> November 2020

	2020/21 Projected Outturn £Million
General Fund Balance as at 1 <sup>st</sup> April 2020	20.0
Impact of net projected underspends reflected in the 2020/21 budget monitoring report	+1.1
Adjustment to Balances: Carry forwards (funded from underspends in 2019/20)	-1.2
Estimated General Fund Balance at 31 <sup>st</sup> March 2021 (end of year)	19.9

- 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 reserves 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.

### **14. CONSULTATION**

- 14.1 Executive, at its meeting on 13<sup>th</sup> January 2021, requested that the 'Draft 2021/22 Budget and Update on Council's Financial Strategy 2021/22 to 2024/25' report proposals are considered by individual PDS Committees. PDS Committee 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 1st March 2021 where the 2021/22 Budget and Council Tax will be agreed.
- 14.2 The use of DSG was subject to consultation with the Schools Forum and this also went to the Children Education and Families Budget Sub Committee on the 19<sup>th</sup> January 2021. At the time of writing this report, this is subject to the formal agreement of the Children, Education, and Families Portfolio Holder.
- 14.3 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.
- 14.4 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, the ongoing Covid situation (with uncertainty on the ‘new normal’) 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 2021/22 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 2021/22**

- 16.1 The updated GLA’s 2021/22 Draft Budget includes proposals for an increase of 9.5% in existing GLA precept levels for 2021/22. The final GLA Precept for 2021/22 is expected to be announced after the Assembly has considered the Mayor’s draft consolidated budget on 25th February 2021.
- 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 £1,264.77 in 2020/21 and a further sum of £332.07 for the GLA precept (providing a total Band D equivalent Council Tax of £1,596.84).
- 16.3 For 2021/22, 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 £1.67m.
- 16.4 As part of the Localism Act, any council tax increase of 2% or above in 2021/22 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 the 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 2021/22 to have a council tax precept of up to 3% per annum to specifically fund adult social care (a 3% increase in council tax equates to £5m additional income per annum). 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 5% without the need for a council tax referendum. The financial forecast assumes the precept could not continue beyond 2021/22. 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 of a 4.99% council tax increase, including the 3% Adult Social Care Precept, and the GLA Precept was increased by 9.5% there would be an overall combined council tax increase of around 5.93%. This would equate to an overall Council Tax (Band D equivalent) of £1,691.52 consisting of the Bromley element of £1,327.86 and GLA precept of £363.66.

- 16.7 The table below identifies the changes required to the draft 2021/22 Budget to achieve different levels of increases in the Bromley element of the council tax. An increase of 4.99%, including 3% for the Adult Social Care Precept, has been assumed in the 2021/22 Draft Budget at this stage.

Increases in Council Tax Levels	
Bromley Element % Increase in 2021/22 including Adult Social Care Precept	Additional Income 2021/22 £'m
Freeze	NIL
1.0	1.7
2.0	3.3
3.0	5.0
3.99	6.6
4.99*	8.3
6.0#	10.0

\*Assumed in draft 2021/22 Budget. Adult social care precept of 3% equates to additional income of £5m 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 2021/22 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 2021/22. 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 2021/22 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 a below average cost 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 2021/22, having regard to all the above factors including the Director of Finance comments in Sections 18.7 to 18.11 and Appendix 4.

## **17. FUNDING SETTLEMENT**

- 17.1 Details of the Council's representation on the response to the 'Comprehensive Spending Review Representation' 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 2021/22 represents an improvement in funding from Government (compared with period 2009/10 to 2019/20) 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 business rates review 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 autumn 2021. 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 13<sup>th</sup> January 2021 and the Draft 2021/22 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 and demographic cost pressures. As part of the Local Government Finance Settlement 2021/22, 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 continuing cost pressures while Government funding remains at 'standstill' levels from 2022/23 – transformation savings will be required to offset such cost pressures to ensure a balanced budget. 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. The wider context includes the Government taking measures, in the medium and longer term, to address the rising national debt due to the Covid pandemic.
- 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 the following two years. To illustrate the benefit of the investment approach the Council has undertaken, budgeted income totaling £13.8m from a combination of treasury management income (£3.6m) and rents from investment and operational properties (£10.2m). Without this income, equivalent service reductions may be required. Utilisation of the remaining uncommitted Growth and Investment Fund monies will be prioritised for housing and local economic recovery. There remains the need to reduce the significant cost pressures on homelessness and the opportunities to help the local economy recover from this pandemic. 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 Section 25 of the Local Government Act 2003 requires the Council's Section 151 Officer to report on the robustness of the budget calculations and the adequacy of reserves as part of the budget and council tax setting decision. 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 below average cost base which makes further savings more challenging. At best, there is expected to be a 'standstill' position on future government funding. Therefore future government funding is not expected to meet future year cost pressures and new burdens which will continue over the next four years.
- 18.8 It is essential that action continues to mitigate the significant cost pressures – the 2021/22 Budget and 2022/23 to 2024/25 forecast assumes net growth pressures of £51.7m offset by mitigation of £33.9m (net increase of £17.8m). In addition transformation savings of £6.4m per annum have been assumed by 2024/25. Without delivery of the combined mitigation and transformation savings of £40.3m per annum by 2024/25, the budget gap would in future years increase – this clearly must be monitored closely with corrective action taken to avoid any significant increase in the budget gap. There is also a risk if the growth pressures assumed in the forecast increase further compared with current projections. Although the 2021/22 Central Contingency Sum and balances (one-off monies) provide a short term 'buffer' it is essential to take action to deliver a sustainable ongoing financial – the Council has a statutory duty to have a balanced budget.
- 18.9 CIPFA has 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.
- 18.10 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 review of business rates from 2022/23) 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, delivering planned mitigation and transformation savings as well as minimising any further cost/growth pressures are essential to identify options from 2022/23 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 2021/22 Budget are provided in Appendix 4.



- 18.11 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 2021/22 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 2021/22 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 2021/22 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.

<b>Background documents</b>	<p>Treasury Management – Annual Investment Strategy 2021/22 and Quarter 3 Performance 2020/21, Executive, Resources and Contracts PDS Committee and Council, 3rd February 2021 and 1<sup>st</sup> March 2021 respectively</p> <p>Capital Programme Monitoring Q3 2020/21 and Capital Strategy 2021 to 2025, Executive, 10<sup>th</sup> February 2021.</p> <p>Draft 2021/22 Budget and Update on Council's Financial Strategy 2021/22 to 2024/25, Executive, 13<sup>th</sup> January 2021</p> <p>Budget Monitoring 2020/21, Leader following pre scrutiny by E,R&amp;C PDS on 18<sup>th</sup> November 2020</p> <p>Insurance Fund – Annual Report 2019/20, E,R &amp;C PDS Committee, 18th November 2020</p> <p>Transforming Property – Creation of a £30m Disposal Programme, Leader following pre scrutiny by E,R&amp;C PDS on 10<sup>th</sup> September 2020</p> <p>2019/20 Provisional Final Accounts. Leader following pre scrutiny by E,R&amp;C PDS on 27<sup>th</sup> May 2020</p> <p>2020/21 Council Tax, Executive 12th February 2020</p>
<b>Financial Considerations</b>	<p>Covered within overall report</p>

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
<b>Bromley's Budget Requirement in 2020/21 (before funding from Formula Grant) @</b>	207,409	207,409	207,409	207,409	207,409
Formula Grant and Business Rate Share	-40,426	-40,426	-40,426	-40,426	-40,426
	166,983	166,983	166,983	166,983	166,983
<b>Changes in Government Core Funding</b>		-448	-448	-448	-448
<b>Cost pressures</b>					
Increased costs (2.0% per annum)		5,585	11,262	17,117	23,113
		5,585	11,262	17,117	23,113
Reinstatement of highways maintenance (previously capitalised)		0	2,500	2,500	2,500
<b>Total additional costs</b>		5,585	13,762	19,617	25,613
<b>Income/Savings</b>					
Interest on balances		0	1,000	1,500	1,500
Release general provision in contingency for significant uncertainty/variables		-1,749	-3,749	-3,749	-3,749
Savings from children's social care linked to invest to save funding		-250	-250	-250	-250
Additional Funding for Social Care in Local Government Settlement 2021/22		-340	-340	-340	-340
Additional Homelessness Prevention Grant		-271	-271	-271	-271
Transformation Savings (full year effect of approvals in 2020/21)		-3,627	-5,942	-6,333	-6,409
Reduction in freedom pass costs to reflect reduced usage in 2020/21		-2,160	-3,312	-1,791	0
		-8,397	-12,864	-11,234	-9,519
<b>Other changes</b>					
Fall out of Contribution to Carbon Neutral Initiatives Fund		-875	-875	-875	-875
Real Changes and Other Variations		282	1,132	639	903
		-593	257	-236	28
<b>COVID Funding</b>					
Provision for additional cost pressures / increase losses (COVID in 2021/22)		7,795	0	0	0
Additional Government Funding towards these (see above)		-7,795	0	0	0
		0	0	0	0
<b>Council Tax</b>					
Increase in cost of Council Tax support to be funded by Government Grant		2,300	0	0	0
Government funding towards additional council tax support costs		-2,300	0	0	0
Estimated increase in council tax base		0	0	0	-750
		0	0	0	-750
<b>Growth/Cost Pressures including mitigation (see Appendix 6)</b>					
- Education		852	1,212	1,572	1,922
- Children's Social Care		2,752	2,249	2,866	3,394
- Adults Social Care		5,522	7,374	9,536	11,698
- Housing		1,735	253	-1,245	-1,701
- Environment		2,300	2,100	1,600	1,100
Building Maintenance		1,000	1,000	0	0
Reduction in investment property income		1,215	1,061	1,242	1,433
Part government funding for loss of fees and charges income (COVID)		-500	0	0	0
<b>Total growth/cost pressures</b>		14,876	15,249	15,571	17,846
<b>Budget Requirement</b>		178,006	182,939	190,253	199,753
2021/22 Council Tax Income	-166,983	-166,983	-166,983	-166,983	-166,983
<b>Increase in council tax (assume 1.99% per annum)</b>		-3,320	-6,712	-10,169	-13,694
<b>Increase in Adult Social Care Precept (assume 3% per annum)</b>		-5,009	-5,009	-5,009	-5,009
<b>Budget Gap before use of collection fund surplus</b>		2,694	4,235	8,092	14,067
Provision for unrecoverable council tax collection losses - COVID (allocated over 3 years)		2,191	2,191	2,191	0
Government funding for contribution towards losses @75% - COVID (allocated over 3 years)		-1,643	-1,643	-1,643	0
Collection Fund surplus 2019/20		-5,153	0	0	0
Collection Fund surplus 2019/20 to meet future years budget gap		1,911	0	-1,911	0
Collection fund 2018/19 set aside to meet future years budget gap		0	-2,700	-3,200	0
Projection of future years collection fund surplus		0	-2,000	-1,000	0
		-2,694	-4,152	-5,563	0
<b>Revised Budget Gap</b>		0	83	2,529	14,067

1) The above forecast assumes a council tax increase of 4.99% per annum in 2021/22 (including ASC precept) and 1.99% from 2022/23

2) Assumes continuation of the following income set aside as an earmarked reserve:

(a) In 2020/21 the Budget assumed that the one off money relating to IBCF due to fall out in 2020/21 was utilised to support hospital discharge costs impact on social care costs. As that funding is still available it is proposed that these monies continue to be set aside (£1.68m)

(b) New Homes Bonus monies are estimated at £707k and it is assumed that these monies will continue to be set aside for housing projects

3) The forecast above includes the outcome of the Provisional Local Government Settlement announced on 17th December 2020. There are various elements of funding still awaited including for example public health, better care fund, rough sleepers and troubled families funding.

## SUMMARY OF DRAFT 2021/22 REVENUE BUDGET - PORTFOLIO

2020/21 Final Budget £'000	Portfolio/Item	2021/22 Draft Budget £'000	2021/22 Band "D" Equivalent £
85,837	Education	94,789	717.96
Cr 79,506	Less costs funded through Dedicated Schools Grant	Cr 87,281	Cr 661.09
6,331	Sub total	7,508	56.87
35,876	Childrens Social Care	38,416	290.97
69,416	Adult Care and Health	73,985	560.38
31,136	Environment & Community Services Portfolio	31,750	240.49
2,434	Public Protection and Enforcement	2,505	18.97
14,889	Renewal, Recreation and Housing	15,064	114.10
34,424	Resources, Commissioning & Contracts Management	34,472	261.10
1,870	Non Distributed Costs & Corporate & Democratic Core	1,888	14.30
196,376	Total Controllable Budgets	205,588	1,557.18
9,341	Total Non Controllable Budgets	11,445	86.69
Cr 853	Total Excluded Recharges	Cr 903	Cr 6.84
204,864	Portfolio Total	216,130	1,637.03
Cr 7,794	Reversal of Net Capital Charges	Cr 9,878	Cr 74.82
Cr 3,591	Interest on General Fund Balances	Cr 3,591	Cr 27.20
875	Contribution to Carbon Neutral Initiatives Fund	-	-
1,612	Contribution to Utilisation of New Homes Bonus for Housing	707	5.36
5,873	Utilisation of Prior Year Collection Fund Surplus/Set Aside	1,911	14.47
11,799	Central Contingency Sum	14,925	113.05
	Levies		
447	- London Pensions Fund Authority*	464	3.51
248	- London Boroughs Grants Committee	247	1.87
252	- Environment Agency *	262	1.99
309	- Lee Valley Regional Park *	321	2.43
214,894	Sub Total	221,498	1,677.69
Cr 40,426	Business Rate Retention	Cr 40,874	Cr 309.59
Cr 5,873	Collection Fund Surplus	Cr 5,153	Cr 39.03
-	Collection Fund Losses (net of grant)	548	4.15
Cr 1,612	New Homes Bonus	Cr 707	Cr 5.36
166,983	Bromley's Requirement (excluding GLA)	175,312	1,327.86

\* Final allocations awaited

## 2021/22 CENTRAL CONTINGENCY SUM

	£'000
<b>General</b>	
Provision for Unallocated Inflation	3,546
General provision for risk/uncertainty	3,500
Provision for risk/uncertainty relating to volume and cost pressure	1,819
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 Expenditure	628
Tackling Troubled Families Grant Income	Cr 628
Growth for Waste services	587
Homeless Prevention funding	Cr 424
Set aside for Homeless Prevention Initiatives	424
Rough Sleeping Initiative - funding	Cr 104
Rough Sleeping Initiative	104
Adult Social Care Expenditure	210
Deprivation of Liberty	118
Planning appeals - changes in legislation	60
Property Valuation	100
Legal support - childcare and adults social care	170
Provision of agency workers contract saving	Cr 260
Provision for increase in National Living Wage	100
<u>COVID Related Cost Pressures / Income Losses</u>	
Adult Placement growth - impact of COVID	1,400
Provision for potential loss in Car Parking income	1,000
Property income recovery/rent variations	500
Loss of fees and charges income - government funding	Cr 500
Additional cost pressures	7,795
Additional cost pressures - government funding	Cr 7,795
	<u>14,925</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 2021/22 BUDGET

### 1. Background

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

### 2. General Reserves

- 2.1. Bromley has estimated general reserves of £19.9 million as at 31st March 2021 (as reported to Leader following Executive, Resources & Contracts PDS Committee on 18th November 2020), 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 (e.g. Covid pandemic), the scale of mitigation/savings and associated impact, the need to manage effectively action to reduce the longer term 'budget gap' and recent government changes which include the transfer of risks from central to local government provides significant new risks for longer term planning purposes;
  - (b) To provide alternative one off funding to offset the impact of any overall large overspends facing the Council;
  - (c) To provide adequate resources for spend to save initiatives which, following investment, can provide real longer term financial and service benefits;
  - (d) To provide support in financing the capital programme, particularly to assist in funding key initiatives;
  - (e) To provide financial support (income) to the revenue budget through interest earnings, which will reduce as balances are gradually reduced;
  - (f) To utilise short term monies available from any 'front loading' of savings to assist in managing the key risks facing the Council and fund key initiatives preventing the further deterioration in the 'sustainability' of the Council's finances;
  - (g) To provide investment to seek a long term alternative to current income streams;
  - (h) To provide funding (e.g. severance costs) to enable the release of longer term ongoing savings;
  - (i) To set aside income available, that does not provide a permanent income stream, towards one off investment in the community for schemes that meet the Council's priorities;
  - (j) To buy time to identify further savings needed whilst avoiding 'knee jerk' actions to deal with future budget deficits;
  - (k) To assist the Council to achieve as much stability as possible for both longer term service delivery and planning the moving of resources to areas of agreed priority.

- 2.2 In order to assess the adequacy of unallocated general and earmarked reserves when setting the budget, account must be taken of the strategic, operational and financial risks facing the authority. This is an important aspect of Bromley's approach to risk management. An 'Annual Governance Statement' signed by the Chief Executive and the Leader of the Council covers, for example, the processes to fully underpin the Council's system of internal control.
- 2.3 Setting the level of reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account needs to be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements.
- 2.4 Bromley's reserves had reduced from £131m to £54m (general reserves) between 1997 and 2011. The Council had previously agreed to set aside part of these reserves towards an Invest to Save Fund and to fund the Growth Fund and Investment Fund. The latest projected level of general reserves remaining is £19.9m.
- 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 until 2024/25 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 business rates and 'Fair Funding' review as well as other risks (e.g. medium term 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 a minimum sum of £20m to reflect the significant financial uncertainty facing the Council and the need to address the medium term '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 01/04/20	Estimated Net Movement	Estimated Balance at 31/03/21	Estimated Movement	Estimated Balance at 31/03/22
	£'000	£'000	£'000	£'000	£'000
<b>EARMARKED BALANCES</b>					
LPSA/LAA Reward Grant Investment Fund	231	0	231	0	231
Technology Fund	5,117	-313	4,804	68	4,872
Town Centre Improvement Fund (LABGI)	55	0	55	0	55
Transformation Fund	1,658	-73	1,585	-400	1,185
Investment to Community (Resources)	325	-20	305	0	305
Works to Property	100	0	100	0	100
Planning Services Charging Account	25	-266	-241	0	-241
Government Grants (c/fwd from previous years)	5,267	-2,966	2,301	-413	1,888
Invest to Save Fund	18,195	334	18,529	0	18,529
One off Member Initiatives	858	-364	494	-327	167
Infrastructure Investment Fund	1,426	-266	1,160	-70	1,090
Commissioning Authority Programme	365	0	365	0	365
Health & Social Care Initiatives – Promise Programme	3,953	0	3,953	0	3,953
Housing Strategy Trading Account	25	0	25	0	25
Community Right to Bid & Challenge	46	0	46	0	46
Investment Fund	6,148	-6,148	0	0	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	25,919	5,873	31,792	1,911	33,703
Healthy Bromley Fund	3,815	0	3,815	0	3,815
Glaxo Wellcome Endowment	113	-21	92	-21	71
Cheyne woods & Cyphers Gate	141	-1	140	0	140
Public Halls Fund	5	0	5	0	5
Future Repairs of High Street Properties	67	12	79	12	91
Parallel Fund	2,903	0	2,903	0	2,903
Growth Fund	21,420	-100	21,320	0	21,320
Health & Social Care Integrated Commissioning Fund	3,550	-520	3,030	0	3,030
Financial Planning & Risk Reserve	10,000	0	10,000	0	10,000
Bromley Welfare Fund	639	-221	418	-175	243
Payment in Lieu Reserve for Temporary Accommodation	149	0	149	0	149
Business Rate Risk Reserve	4,200	0	4,200	0	4,200
<b>Sub Total B/fwd</b>	<b>122,052</b>	<b>-5,060</b>	<b>116,992</b>	<b>585</b>	<b>117,577</b>

Description	Balance at 01/04/20	Estimated Net Movement	Estimated Balance at 31/03/21	Estimated Movement	Estimated Balance at 31/03/22
	£'000	£'000	£'000	£'000	£'000
<b>Sub Total C/fwd</b>	<b>122,052</b>	<b>-5,060</b>	<b>116,992</b>	<b>585</b>	<b>117,577</b>
Crystal Palace Park Improvements	26	-26	0	0	0
Various Joint Schemes and Pump Priming Investments	2,291	452	2,743	-18	2,725
Transition Fund	2,560	0	2,560	0	2,560
Environmental Initiatives	500	-54	446	0	446
Planning/Planning Enforcement	119	-119	0	0	0
Apprenticeship Scheme	171	-40	131	-118	13
Civic Centre Development Strategy	271	-11	260	-3	257
Future Professional Advice for Commissioning	147	-5	142	0	142
Utilisation of New Homes Bonus	2,256	0	2,256	0	2,256
Future Pensions Risk on Outsourcing	897	173	1,070	175	1,245
West Wickham Leisure Centre & Library Development	624	0	624	-624	0
Income Equalisation Reserve	3,790	0	3,790	0	3,790
Capital Funding for Property Disposal/Feasibility Works	78	-78	0	0	0
Biggin Hill Airport Project	124	-51	73	-62	11
Transformation Programme	488	-109	379	0	379
Housing Investment Fund	18,840	-5,413	13,427	-10,440	2,987
High Street & Parks Improvement Fund	71	-71	0	0	0
Contribution to YES Funding	45	-45	0	0	0
Day Centre Rent Relief	6	-6	0	0	0
Housing Invest to Save	3,409	0	3,409	0	3,409
Health Facilities Fund	993	0	993	0	993
Health & Social Care Transformation Fund	1,500	0	1,500	0	1,500
Housing feasibility and viability	250	-250	0	0	0
Walnut development	0	40	40	-40	0
Provision for Education Risk Reserve	0	500	500	0	500
IBCF Hospital Discharge Funding Reserve	0	1,677	1,677	1,677	3,354
Carbon Neutral Initiatives Fund	0	875	875	0	875
Utilisation of New Homes Bonus for Housing	0	1,612	1,612	707	2,319
<b>Sub Total</b>	<b>161,508</b>	<b>-6,009</b>	<b>155,499</b>	<b>-8,161</b>	<b>147,338</b>
<b>PROVISIONS</b>					
Insurance Fund	4,396	30	4,426	30	4,456
<b>OTHER</b>					
School Budget Share Funds	1,739	0	1,739	0	1,739
<b>Total Estimated Reserves</b>	<b>167,643</b>	<b>-5,979</b>	<b>161,664</b>	<b>-8,131</b>	<b>153,533</b>

3.2 The report highlights the medium term '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. The need for these reserves include setting aside resources to support the Council's future transformation programmes (invest to save), invest to save to include housing the homeless initiatives, support acquisition of investment properties, where appropriate, to generate sustainable income and the funding to support economic development and employment within the borough whilst generating income opportunities. These measures are important to provide sustainable solutions in the longer term.

3.3 A summary of other significant areas are:

- School Balances - these are unspent balances of budgets delegated to individual schools and these are legally only available to schools.
- Insurance Reserves – self-insurance is a mechanism used by a number of local authorities including Bromley. In the absence of any other statutory basis, sums held to meet potential and contingent liabilities are reported as earmarked reserves or provisions.
- Technology Fund - this represents IT budgets that have been put into a reserve in previous years to allow projects to be carried out across the boundaries of financial years and the utilisation of this will become increasingly important over the next few years.
- Health and Social Care (various) – there are monies set aside as part of a Section 256 agreement with previous Bromley Clinical Commissioning Group (now South East London CCG) for the funding of future transformation / integration of health and social care and to contribute towards the financial sustainability of local health services that impact on social care.

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 Interest Rates and Inflation**

4.1.1 Despite the previous decrease in the Bank of England base rate from 0.75% to 0.25% and then to 0.1%, there has been only a marginal short term impact on the interest income that the Council is obtaining from lending to banks. The decline in the base rate will mean that any options with regard to the reinvestment of maturing deposits have become seriously limited following bank credit rating downgrades and the general low interest rate environment. However, the Council remains 'locked in' to several fixed-

rate two-year lending deals that will yield a higher rate of return until they mature during either 2021/22 or 2022/23. 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 2021/22 and Quarter 3 Performance 2020/21' report to Executive, Resources and Contracts PDS Committee on 3rd February 2021.

- 4.1.2 A general allowance of 2% per annum has been built into the Draft 2021/22 Budget and financial forecast with an assumed 2% in future years.

## 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 2020/21 and Capital Strategy 2021 to 2025' 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 There remain significant cost/growth pressures impacting on education, housing, adults and children's social care as well as opportunities for the mitigation of costs. There are additional costs relating to building maintenance as well as the impact of future losses in income, compared with the 2020/21 Budget. Income losses include car park income and rent income mainly due to the Covid impact. The financial forecast elements are summarised below with more details reported to the previous meeting of the Executive.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Growth/cost pressures	28,037	35,735	42,863	51,713
Mitigation	-12,661	-20,486	-27,292	-33,867
Net additional costs *	15,376	15,249	15,571	17,846

\* There is government grant of an estimated £0.5m for loss of fees and charges income due to Covid in first quarter of 2021/22 which has been excluded from the above.

- 4.3.3 It remains essential that there is the ongoing scrutiny and review of growth/cost pressures, which are mainly unfunded beyond 2023/24 with options to help achieve a balanced budget, including any mitigation over the financial forecast period.
- 4.3.4 The draft 2021/22 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%, prior to the Covid pandemic. Other external debt collection was also high. The Covid pandemic has created new challenges and the Government has only partly funded consequential income losses. The Council will seek to take measures to assist in maximising the recovery of income, where possible. Maximising income recovery is essential to assist in funding key services. 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 the Transformation programme process to be able to generate savings as part of future years' budgets, as well as provide service improvements. The main issue remaining is to ensure that service managers continue to develop even greater ownership of their budgets and have more sophisticated activity and performance information on the service which they are providing. Any overspending should require compensating savings to be identified.

#### **4.6 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 2020/21', considered by the Resources, Commissioning and Contracts Management Portfolio Holder at the meeting of the E,R&C PDS Committee on 18th November 2020, 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 £14.1m by 2024/25, '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, 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 £13.8m, assumed in the 2021/22 Budget, is shown below:

	£'m
Investment properties and rental income	10.2
Treasury Management Income	3.6
Total investment income	13.8

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 from 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 and regeneration/growth in local economy at this stage.

4.11.5 Details of the approach to treasury management is being reported to Executive, Resources and Contracts PDS meeting on 3rd February 2021. 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. The contribution of higher risk and longer term investments within Treasury Management has previously 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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16th January 2021

Email: [LGFsettlement@communities.gov.uk](mailto:LGFsettlement@communities.gov.uk)

Dear Sir/Madam

### **Provisional Local Government Finance Settlement 2021/22**

The London Borough of Bromley welcomes the opportunity to comment on the Provisional Local Government Finance Settlement 2021/22. It is important that this response is considered in the wider context of historic local government funding challenges and increasing demand for our services.

In 2020/21, 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 £64m in 2021/22. It is essential that MHCLG reflect an adjustment to the Council's baseline funding position to address historic low funding levels in the future local government settlement, following the Spending Review 2021.

During the period 2010/11 to 2019/20 we have faced government core grant reductions of around £77m per annum and delivered savings of £100m per annum. Although we have delivered further savings, any ongoing funding reduction (or standstill funding position) would become unsustainable for a low cost authority. 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.

If there were no future cost pressures, then maintaining the level of Government funding and allowing flexibility in raising Council Tax would be financially sustainable. However, it is important to be realistic and recognise that the real challenge is dealing with increasing costs/income losses arising from new burdens not fully funded and increasing demand for services, immense pressure

Peter Turner. Director of Finance

on adult and children's social care costs, rising population levels, the significant impact of homelessness pressures, meeting inflation costs and the ongoing impact of Covid-19 (i.e. 'New Normal'). To meet these challenges there needs to be a fairer level of funding to Bromley. This would be essential to provide a medium and longer term sustainable financial solution. This would enable the Council to meet the key services that matter to our residents and taxpayers.

We welcome the continuation of the second year of no overall funding reductions, following 10 years of significant funding reductions and the recognition that further financial support is needed for local authorities to deal with the Covid situation in 2021/22, given its impact on local government. The early indications from the Spending Review 2020 of the likely outcome of the Local Government Settlement was also helpful. We welcome how the Government has adapted to address the funding of the Covid situation impacting on local government but this must continue to be kept under regular review because of the financial risk inadequate funding creates.

We recognise the difficulty in providing a longer term financial settlement, given the current economic position and the uncertainty relating to the impact of Brexit and the 'new normal' following the Covid situation. However, a one year settlement does create uncertainty in future financial planning whilst other key organisations e.g. NHS are provided with a longer term financial settlement.

There is a 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 funding. The Council received minimal additional funding for social care, despite the significant cost pressures that must be met, and the main flexibility provided was to fund these costs through the Adult Social Care precept. There should be more Government funding provided rather than a reliance on local taxpayers to meet the significant costs. The NHS is receiving substantial increases in funding and there remains an interdependency between social care and NHS services which would require more funding for social care to ensure the NHS can deliver its key requirements.

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, various changes from the Social Work Act, extended support to care leavers to the age of 25 years old, the previous lifting of the public sector pay cap, indexation and equalization 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. Many 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 including benefit cap) have not been fully recognised and have resulted in a significant additional cost burden which is not recognised by the funding provided. To illustrate the activity behind the cost pressure on homelessness facing Bromley, the total number housed in temporary accommodation is around 1,800 and up to September 2020 there was an increase of 9 per month in temporary accommodation requirements – this is now running at an increase of 25 per month.

We welcome the review of children's social care launched by the Education Secretary this week which 'will set out to radically reform the system' and ask that this thoroughly considers the costs pressures on children's social care and the need for adequate funding to improve children's lives.

We recognise that the Government will continue to work with local authorities to undertake the Fair Funding Review and other significant changes, including the business rate review, which could have a significant impact on future finances for local authorities – the awaited outcome of this work also creates significant financial uncertainty in future financial planning to support key services. We recognise that this review is an opportunity to resolve 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.

Key asks for the Spending Review 2021 and Fair Funding Review and its associated impact on funding for Bromley are summarised below:

- It should result in a mechanism to reward more efficient authorities (e.g. financial incentives in the system).
- It should recognise 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.
- The negative revenue support funding adjustment is clearly not 'fit for purpose' and should continue to be removed if it is necessary for the existing funding formula to continue whilst the outcome of the Fair Funding Review is awaited.
- It 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.
- It should recognise that authorities with a low-cost baseline should not have to face a higher proportion of cuts to funding as part of any future austerity and thus recognised/compensated in any future funding arrangements.
- Remove restrictions that prevent local authorities from raising or spending their own resources - we need more flexibility in place to make the best use of our resources for our residents.
- Social Care responsibilities (Improved Better Care Fund) should be determined by adult social care formula (e.g. Bromley had lost significant additional funding as a result of 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. The Spending Review outcome should recognise Bromley's (as well as a few other areas) cost pressures relating to homelessness.
- 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 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.

- Should have mechanisms in place to ensure new burdens are adequately funded.
- 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.
- 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 critical that these points are addressed as part of the future Fair Funding Review. It remains essential that any whole solution that provides a sustainable platform for the future includes resource equalisation and transitional arrangements.
- We request that the changes made by previous governments to give local authorities more control over the funding be reconsidered. 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 a risk of longer-term potential costs being ultimately met by the council taxpayer 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 taxpayer is required to fund special educational needs transport costs of around £6m per annum which should logically be funded through education funding as it is part of the overall SEN package of costs.
- Recognises the true financial impact of essential highways maintenance and repair in a geographically large borough with an extensive road network.
- 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?
- Recognition of the medium and longer term impact of Covid-19 on local government costs (expected to increase) and income (expected to reduce). There would be further cost pressures arising from any recessionary impact on the economy from the Covid-19 situation as well the changes arising from the 'New Normal'. This has had a significant detrimental effect on the Councils budget challenges.

The above does not reflect all the asks and we recognise that the Government will continue to work with local authorities to undertake the Fair Funding Review and other significant changes, including the business rate review, which could have a significant impact on future finances for local authorities – the awaited outcome of this work also creates significant financial uncertainty in future financial planning to support key services. We recognise that this review is an opportunity to resolve 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.

We appreciate the ongoing support of Bromley's local MP's who 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.

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 had previously supported Government policy towards meeting austerity, seeking to generate economic growth through investing (and contributing 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 welcomed the settlement for 2021/22 as providing much needed stability and an initial step towards a more sustainable financial settlement. If this year's Spending Review and future 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.

Responses to specific questions raised through the consultation are attached.

To allow for enough time to meet statutory council tax deadlines and our annual billing deadlines, it is important that the final 2021/22 Local Government Finance Settlement is published before the end of February to enable sufficient time for final key decisions to be made.

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 2021/22 Provisional Local Government Finance Settlement.

Yours faithfully

A handwritten signature in black ink, appearing to read 'P. Turner', with a stylized flourish extending from the end.

Peter Turner  
Director of Finance

## **Responses to specific questions**

### **Question 1: Do you agree with the Government's proposed methodology for the distribution of Revenue Support Grant in 2021-22?**

Given the limited timescale and the awaited Fair Funding Review, we recognise that the proposed approach to distributing RSG is a reasonable interim measure. Low cost and well run authorities should not be penalised with a negative RSG requirement and we are pleased that this is recognised in the provisional settlement. 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 2: Do you agree with the proposed package of council tax referendum principles for 2021-22?**

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, 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 3: Do you agree with the Government's proposals for the Social Care Grant in 2021-22?**

The additional funding for social care is welcome and much needed. We also welcome 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, its 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 Social Care Grant, which is partly reduced for Bromley to reflect equalization for what can be raised in the Adult Social Care Precept. 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.

This settlement represents a short-term approach to social care funding and await the outcome of the Government's commitment to set out its long-awaited visions for social care reform in 2021 and would wish to actively engage in that process.

**Question 4: Do you agree with the Government's proposals for iBCF in 2021-22?**

Bromley welcomes the continuation of the iBCF funding which supports social care.

**Question 5: Do you agree with the Government's proposals for New Homes Bonus in 2021-22?**

We welcome the continuation of funding of New Homes Bonus allocations in 2021/22 but are disappointed with the phasing out of legacy payments. 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 welcome the commitment to consult widely on any future reforms to the New Homes Bonus 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 – this would also assist in financial planning.

**Question 6: Do you agree with the Government's proposal for a new Lower Tier Services Grant, with a minimum funding floor so that no authority sees an annual reduction in Core Spending Power?**

We welcome the Lower Tier Services Grant and agrees to the no loss principle that a minimum funding floor provides.

**Question 7: Do you agree with the Government's proposals for Rural Services Delivery Grant in 2021-22?**

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.

**Question 8: Do you have any comments on the Government's plan not to publish Visible Lines?**

Bromley has no comment to add.

**Question 9: Do you have any comments on the impact of the proposals for the 2021-22 settlement outlined in this consultation document on persons who share a protected characteristic, and on the draft equality statement published alongside the consultation document? Please provide evidence to support your comments.**

Bromley has no comment to add.