

PART 1 - PUBLIC

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Decision Maker: **Executive**

Date: **8<sup>th</sup> December 2010**

Decision Type: Non-Urgent Executive Non-Key

**TITLE: BASE BUDGET LEVEL 2011/12 AND UPDATE ON COUNCIL'S FINANCIAL POSITION 2011/12 TO 2014/15**

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Chief Officer: Director of Resources

Ward: Borough wide

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1. Reason for report

- 1.1 The prime purpose of this report is to seek approval of the initial level of the 2011/12 Budget as a basis for proceeding to the setting of the Council Tax. The report follows on from the update on the Council's financial position put to the July meeting of the Executive. The report also considers outstanding issues and further action required and areas of uncertainty. More details of these will be reported to the January meeting of the Executive.
- 1.2 This paper provides the latest position on the overall budget over the next 4 years and identifies a series of issues and actions that need to be undertaken to finalise the budget. The report also provides an update on the outcome of the Comprehensive Spending Review.

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2. **RECOMMENDATIONS**

Executive are requested to:

- a) **Agree the draft level of the 2011/12 budget, including those savings included, as per Appendix 1 a basis for setting the 2011/12 Budget and**
- b) **Note the outstanding issues that will require resolution in setting the 2011/12 Budget.**
- c) **Note the outcome of the Comprehensive Spending Review and that a more detailed update will be provided at the meeting should the provisional announcement of the Local Government Financial Settlement be available.**
- d) **To consider the issues around remaining Area Based Grant and those Grants into Formula Grant.**
- e) **To consider the approach to the 4 major growth items remaining in the budget forecast.**

- f) **Note the need to make significant provision for severance costs in setting the budget.**

## Corporate Policy

Existing policy:

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## Financial

1. N/A
  2. Recurring cost
  3. Budget head All Council Budgets (Revenue)
  4. Total budget for this head £132m (2010/11 Budget excluding GLA precept)
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## Staff

1. Number of staff (current and additional) – 2,658 fte plus 4,556fte delegated to schools (per 2010/11 Budget)
  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 Accounts and Audit Regulations 1996; the Local Government Finance Act 1998; the Accounts and Audit Regulations 1996; the Local Government Act 2000 and the Local Government Act 2002.
  2. Call-in is applicable
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## Customer Impact

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

## Ward Councillors Views

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

### 3.1 COMMENTARY

3.2 The Executive in July agreed a budget strategy split into 3 components:

- 2010/11. The crucial issue was delivering the savings built into the budget with no carry forward into future years, ensuring that new commitments against Specific and Area Based Grants were minimised and steps taken to balance the budget in year.
- 2011/12 would likely to need to be balanced as a specific year given the level of uncertainty on funding but retaining the link to strong 4 year medium term financial planning. This needed the building of a savings plan to balance the base position plus the identification of options for future years but with a degree of flexibility.
- 2012/13 to 2015/16 the council would move as close as possible to setting a multi-year budget, as was done in 2008/9, 2009/10 and 2010/11. This would allow longer term decisions and integrate these with policy choices.

It was agreed that options to contain grant loss and service growth within the service were to be modelled as a starting point as in previous years along with the potential for re diverting any un-ring fenced grants.

### 4. Grant position

4.1 The Comprehensive Spending Review (CSR) was announced on 20<sup>th</sup> October. There has subsequently been substantial work undertaken with London Councils to obtain greater certainty but it has proven very problematic to produce robust estimates of potential grant losses.

- Approximately £791,000 currently received by London Councils as a Specific Grant towards Concessionary Fares will be transferred into Bromley's base Formula Grant. Approximately £14.08m of Bromley's grants are being added to the £65m Formula Grant that the Council receives. This has impact on the budget strategy (see below) and could add £4m to the grant losses over the 4-year planning period. The inclusion of un-ring fenced Specific Grants in Formula Grant rather than Area Based Grant and the move of ABG here is unhelpful as it means that these will be cut in addition to the loss of Formula Grant.
- In the summer there was a consultation paper issued on the underlying Formula Grant model. Much will depend upon the effect of any changes adopted and the re-running of the national settlement following this. This could have the effect of moving significant resources out of London on a long term basis and could see the loss of the Service Grants transferred into Formula Grant. The main issue is what level of funding will be left for the grant floor once the model is re-run.
- The issue of the floor level remains crucial but there has been no indication to date of the likely level. Some extreme scenarios have been suggested involving the elimination or virtual elimination of the floor over the CSR period. This would be potentially extremely damaging with a further £10 -15m of reductions to those discussed below.

4.2 Appendix 4 contains details of the CSR. Key issues that impact on the funding projections are shown below:

- a. There remains a significant amount of grants which have not been mentioned in the Spending Review. The distribution and level of cuts of these has not been announced but is very important and could give the council major additional problems.
- b. The Council remains at the Formula Grant "grant floor" with a gap of £19.5m although this may change once the grant is set for 2011/12.

- c. The arrangement for the Council tax freeze has been confirmed - £700m has been set aside for Councils to set a zero Council tax increase for 2011/12 only, and the funding for this single first year freeze will be built into grants across the four year settlement period. This appears as secure as any grant can be in the current climate.
- d. New social care funding of £530m in 2011/12 rising to £1bn in 2013/14 was announced. The position on this has been unclear but it seems that this has been included in the overall totals for Formula Grant below the grant Floor. A further £1bn of additional funding through the NHS budget has been announced to support joint working between the NHS and councils

4.3 The best estimates of grant losses are currently:

	2011-12	2012-13	2013-14	2014-15
	£'m	£'m	£'m	£'m
1. Assume New Formula Grant is favourably treated	-9.0	-13.4	-13.3	-16.9
2. Assume New Formula Grant is equally treated and Grant Floor nil	-10.0	-15.0	-15.1	-18.9
3. Assume 2 and -1.5% grant floor	-11.2	-17.2	-18.3	-23.1
4. Assume 2 and -3% grant floor	-12.4	-19.6	-22.0	-27.9

The outcome depends on how major grants are treated at a national level and the model above does not include any re-running of the national formula. Scenario 2 shows the Grants taken into Formula Grant and existing Formula Grant being reduced by 23% over the 4 year period. What is apparent and worrying is how heavily the loss is potentially front loaded. It is unclear at this stage whether the extent of front loading will be reviewed.

4.4 The CSR highlights that the Council faces significant reductions in Government funding. The final amount will be dependent on the following key factors:

- How Specific Grants are actually moved into the Formula. What will their initial level be and how will they be rolled into the overall grant model, which could reduce grants further?
- Will there be an accelerated programme to eliminate the protection of “floors and ceilings” within Formula Grant?
- There was consultation of further changes in the distribution of Formula Grant – what impact will the final outcome have on Bromley?
- How will the grants that have yet to be mentioned be treated? There is a risk of significant loss of specific and residual Area Based Grant that will require spending reductions above those discussed below.

## 5 Budget Gap

5.1 The initial base budget for 2010/11 which is proposed as the starting point for finalisation of the 2010/11 and Council Tax is shown in Appendix 1. This also projects the position forward for 2012/13 to 2014/15. For modelling purposes this assumes a 0% Council Tax rise in 2011/12 (funded by additional government grant) and a 2.5% increase in future years. The Council tax level is, of course, a decision for Members that will be taken annually. The projection adds in the estimated grant transfer in relation to Concessionary fares but excludes any loss of government grants. The proposed base budget includes several savings that can be taken as a result of

actions and decisions in the in the year which have not yet formally been taken as budget reductions. The revised forecast is discussed in section 6. The base gap is:

To achieve a 0% Council tax rise in 2011/12 with government grant and 2.5% in future years	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Cumulative savings	411	5,070	8,693	13,865
Annual Savings	411	4,659	3,623	5,172

- 5.2 As highlighted above there are many factors which remain uncertain around grants in particular. The outcome of this may be known by the time of the meeting. At this stage, the modelling assumption (based on limited information currently available) is that the reduction in Formula Grant will be as per option 2 above; this would be a relatively positive outcome and would assume that London had won its arguments about a minimal grant floor reduction. In addition the impacts of 2 options around the grant floor are shown below. There have been some radical suggestions about moves to eliminate the grant floor in the short term that could add £10m to option 4 above.

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Cumulative Budget Gap, excluding reduction in government grants	411	5,070	8,693	13,865
Estimated loss of Government Grant (assume say.)	10,000	15,000	15,000	20,000
<b>Revised budget gap after allowing for loss of Government Grant</b>	<b>10,411</b>	<b>20,070</b>	<b>23,693</b>	<b>33,865</b>
Revised budget gap if assume -1.5% grant floor	11,611	22,270	26,893	38,065
Revised budget gap if assume -3% grant floor	12,811	24,670	30,593	42,865

- 5.3 The final outcome will only be available following the Local Government Financial Settlement due in early December. If this is announced before the meeting an update will be provided.

## 6 Budget and Forecast update

- 6.1 The attachment at Appendix 1, 2 and 3 update the forecast in detail from the position reported in July. There have been a variety of significant changes since then.

- a. The position on pay has become clearer. A pay freeze has been built into the budget for 2010/11 and 2011/12. Any incremental growth will be required to be funded from within Departmental base budgets.
- b. Interest on balances projections have worsened in early years of the period because of the delay in interest rates recovering. The projection for 2014/15 is however higher than that produced in July. Options to gain increased interest are being reviewed, but there is little suitable activity in the market.
- c. Several savings have been agreed by the Executive since July. Decisions have not yet formally been taken to reduce the budget for these but they have been built into the forecast to give a clearer statement of the budget gap and to provide a basis for setting a draft base budget.

- 6.2 The growth included in the forecast has been subject to corporate officer review. In broad terms there is an increase of £500,000 in the costs from those reported in July, primarily from further projected increases in the costs of Children's Placements. There are 4 major elements of growth in the forecast.

	2011/12	2014/15
	£m	£m
Learning Disabilities	0.8	2.4
Children's Services	1.0	1.5
Energy/Carbon Tax	0.6	1.4
Waste	0.6	1.2
<b>Total</b>	<b>3.0</b>	<b>6.5</b>

There are substantial measures in place to minimise the increased cost of waste, given the scale of the budget gap discussed above it is important to review the options for reducing these other growth pressures. This may require, for example, investment in energy conservation measures.

## 7. Savings Position

- 7.1 The Budget Strategy report considered by the Executive in July reviewed the need to make significant savings and Officers have been reviewing options to deliver savings of up to 25% over the 4 year period (c£40m.) This process is drawing towards a conclusion and options will be available for consideration alongside a firmer budget gap following the announcement of clearer grant data.
- 7.2 A significant issue in modelling savings and managing the budget is the overlap of savings options with service based grant income. The treatment by Central Government of grants relating to these services in the CSR is extremely important. The position on the future Area Based and Specific Grants for CYP and ACS is very different. The vast majority of Specific and ABG for ACS has been rolled into Formula Grant. For CYP only a small proportion has been treated in this way.

	Rolled into FG	Remaining ABG	Remaining Special Grant	Total Dept Residual Grant Budget
	£,000	£,000	£,000	£,000
Children & Young People	1019	4005	47641	51646
Adults and Community Services	13053	518	280	798
Renewal & Recreation	9	0	2889	2889
<b>Total</b>	<b>14081</b>	<b>4523</b>	<b>50810</b>	<b>55333</b>

- 7.3 Of the CYP grants £36.6 million is ring-fenced Central Education Grant leaving c £11m of Special Grants. The main element of this is £8.8m of Sure Start that remains ring fenced. The detail of this is still being analysed.
- 7.4 This means that grants are being used to fund a small element of ACS expenditure but significant, CYP services are still vulnerable to reduction by the awarding government department. Reductions in these grants have not been factored into the models above. Any reductions in these will increase the budget gap and need additional reductions to those already being modelled. The agreed starting point is that where targeted grants are reduced the corresponding spending is reduced.
- 7.5 The important change for ACS is that that Preserved Rights, Supporting People and Carers Grant along with several other significant areas have been moved into Formula Grant. Although these face a significant cut over the next 4 years there had been fears that they could have faced large immediate reductions.
- 7.6 Once the Formula grant and other grants are announced it may be appropriate to zero base activity to be funded from remaining Specific and Area Based Grant.

## **8. Outstanding major Issues**

### **8.1 Concessionary Fares**

For Concessionary Fares the position is very complex. Next year is the final year of the arbitration agreement whereby charges move from a flat rate per pass to usage, but there remains a small element for which usage data is not available. In addition, Central Government Specific Grant to London Councils is being transferred to the Boroughs through Formula Grant. At the same time Central Government is moving responsibility in the Shires from District to County requiring a complete re-running of the national funding model. London Councils have recalculated the likely changes to reflect the loss of Formula Grant, changes in usage and the decision by Transport for London to increase the charges for the bus service. There are outstanding issues about the charges for services with limited usage data and the final settlement with TfL. The final cost of the transfer of Specific Grant to London Councils into Formula Grant remains unclear. The forecast includes the best estimate currently available but a final figure will not be known until later in December.

### **8.2 London Boroughs Grant Scheme/London Councils**

Bromley currently pays c. £1.046 million into the London Boroughs Grants Scheme. This is subject to a review on the appropriate balance between a London wide scheme and local spending. This could lead to a reduction in the level of subscription required to the scheme which may generate resources for re-investment. It is anticipated that the position will become clearer in December. At this stage no financial assumptions about the outcome are included in the forecast. Discussions are underway about reducing the scale of the contribution to London Councils and an estimated reduction in contribution of £30,000 has been built into the forecast but this is yet to be finalised.

### **8.3 Pay Awards**

As is discussed above a pay freeze for 2010/11 and 2011/12 has been built into the draft base budget. For future years pay awards are assumed at 3%. This is an area where it is very difficult to be precise as it will depend upon the outcome of negotiations and the state of the overall economy.

### **8.4 Inflation**

Bromley is a heavily outsourced organisation and the level of inflation is critical to determining the budget gap. Most contracts are indexed at RPIX which is currently running higher than other definitions of inflation. It has proven difficult to find an appropriate alternative index, as taxation needs to be excluded. There are now however, alternative options for indexing future contracts that are being explored but these might lead to higher up front costs. Options to negotiate lower prices with existing contractors will be explored. A provision of 3% for inflation has been included in the draft budget. This is below current inflation levels and is likely to require a degree of cash limiting of but there is a top up for the 6 core contracts of the Council included in the base budget.

### **8.5 Severance payments**

The budget monitoring report elsewhere on this agenda identifies initial budgets for severance payments made in 2010/11. As part of modelling budget reductions potential severance costs will be identified. Once the scale of reductions required is clear following the grant announcement then these costs will be factored into the budget and resources will need to be identified, either from within the overall budget balancing exercise or from the utilisation of the Councils unallocated reserves. There are provisions to seek capitalisation directives from the Department for Communities and Local Government but previous experience suggests that it is unlikely that a borough such as Bromley with significant reserves will receive such consent and this could not be relied upon in setting the budget.



## **8.6 Pension Fund**

- 8.6.1 The pension fund is due for its triennial revaluation for implementation from 1<sup>st</sup> April 2011. The actuary has completed initial work in the last week, although this will not be finalised until later in the year.
- 8.6.2. There were concerns that deteriorating economic circumstances and increased longevity of members could lead to the increase in the employers' rate of contribution for future service of active members but it seem likely that this will remain essentially unchanged. Following from Lord Hutton's initial review the CSR indicated that they expected that the overall employees charge would rise by 3% p.a. over the next 4 years. This will require regulation changes and will be complex, and it is increasingly unlikely that there will be any such changes in time for the 2011/12. A full implementation of a 3% increase could save Bromley c. £2m pa. if the employers contribution were similarly reduced.
- 8.6.3 Bromley's Pension fund was the best performing English Local Authority and over the last 5 years. It earned 7.1% income p.a. compared to the average of 1.7%.p.a. over the triennial valuation period. This has meant that there has been an overall increase in funding to an estimated 84%. Many Council's are facing sharp upward increases in Pensions costs and at the very best holding contributions stable. It is important to recognise that it is unlikely that anything that the Hutton Commission recommends will deal with deficits.
- 8.6.4 The good performance means that estimated growth of £0.6m in 2011/12 rising to £2.7m in 2014/15 has already been removed from the budget projections.
- 8.6.5 The position around schools is complex, particularly with the impact of academies. Further work has been commissioned from the actuary to be available before the Grant announcement to deliver a sustainable position on schools liabilities. This work is needed before final figures are available. Bromley does not currently charge schools for a share of the deficit. This will be amended from 2011/2.
- 8.6.6 Pensions are managed via the Non Executive arm of the Council and the decision on deficit recovery legally rests with the actuary who has a prime duty is to hold the level of contribution stable The council has a 15 year deficit recovery plan agreed in 2005 which has a further 9 years to run. In the current fiancial context a modest extension of this recovery plan would be appropriate. It should be noted that the deficit recovery plan is equivalent to a mortgage: both principal and interest are paid .As with a mortgage the longer the recovery period the greater the amount of interest and overall sum paid. Combined with charging of schools revising the plan would save the general fund a minimum of £3.2m. of a budget of £8.6mThis figure has not been built into the base budget and forecast discussed above and is subject to finalisation The final year of the forecast period falls after the next revaluation and should economic conditions in the intervening period be adverse this could put significant upward pressure on the contribution required in that and future years

## **9 STRATEGIC PLANNING.**

- 9.1 It is important that as soon as clearer indications of grant funding are available that a medium term budget plan is developed, this is needed to provide a framework to allow a response to the rapidly changing external environment, in particular health and education.
- 9.3 Working with health to generate service improvements and efficiencies will be increasingly important. This is going to be a major piece of work that will require sensitive handling
- 9.4 Shared Services will need to be explored. Bromley has made a useful start on this agenda the work currently being undertaken with Lewisham over shared IT contracting being a particular success. . More intensive discussions are underway with Baxley and the possibilities of options across SE London are under exploration. It is likely that shared services will need small/medium starter projects to

demonstrate the viability and build confirmed need. The extent of existing outsourcing at Bromley somewhat limits the scale of the proposals that we can explore.

- 9.5 Bromley is a heavily outsourced organisation. There is some potential for further outsourcing but this will not be on the scale of the benefits taken in the late 1990s and early 2000's. The Exchequer and revenues contract that has recently been let contains options to extend the services into related areas and this could be explored as a starting point over the next 2 to 3 years. However, the public sector pay freeze in comparison to the indexation requirements of external contracts may make further externalization more problematic without more challenging contracts proving acceptable to the private sector. It is noticeable that in many core service areas large scale competitive activity has yet to develop.
- 9.6 Future income and Council tax levels are crucial to the medium term positions and this will need further analysis and option appraisal early in the life of the new Council.
- 9.6.1 The sort of options that the council faces will require a significant amount of project and programme management plus formal change management.

## 10 CONCLUSION

The report sets out the base budget as a starting point for setting the 2001//12 budget. It also updates the forecast for future years. The scale of savings likely to be required is modeled. It is probable that the late announcement of grant changes will create a volatile situation requiring rapid change in our detailed approach but the framework should be one of tight financial forecasts and control linked to a clear strategic service direction.

<b>Background Documents:</b>	The financial implications are contained within the overall report.  No implications arising directly from this report
<b>Financial Considerations</b>	
<b>Legal and Personnel Considerations</b>	