

Decision Maker: **Executive**

Date: **7th September 2011**

Decision Type: Non-Urgent Executive Non-Key

TITLE: UPDATE ON COUNCIL'S FINANCIAL STRATEGY 2012/13 to 2015/16

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Chief Officer: Director of Resources

Ward: Borough wide

Reason for report

- 1.1 This report provides an update on the Council's financial strategy. The report outlines the issues that continue to shape the medium and longer term strategy for the Council.
 - 1.2 The report highlights that the Council will face ongoing reductions in funding over the medium to longer term given the current state of public finances whilst service and other cost pressures remain.
 - 1.3 The 2011/12 Council Tax report identified the significant changes that will impact on the Council's finances over the next few years. Savings of £22m were required over the period 2011/12 with further savings of £11m (cumulative total of £33m) identified for 2012/13 to address reductions in government funding and the need to meet inflation and service pressures. This report provides the latest forecast for 2012/13 to 2015/16 and identifies actions to address the ongoing "budget gap".
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2. RECOMMENDATIONS

2.1 The Executive is requested to:

- (a) Agree continuation of the updated approach to the budget, as summarised in Section 9 of the report;
- (b) Note the latest financial forecast for 2012/13 to 2015/16 and that financial uncertainty remains;

- (c) Consider the “variables” which can impact on the Council’s overall financial position detailed in Section 6 of the report;
- (d) Refer this report to individual PDS Committees for their consideration and comments to be reported back to the Executive.

Recommend that Council:

- (e) Approve the creation of a Regeneration/Investment Fund (Earmarked Reserve) with £10m set aside from general reserves as detailed in Section 10.4 of the report;
- (f) Approve the creation of an Invest to Save Fund (Earmarked Reserve) with £14m set aside from general reserves as detailed in Section 10.5 of the report;

Corporate Policy

Policy Status: Existing Policy

BBB Priority: Excellent Council,

Financial

1. Cost of proposal: N/A
 2. Ongoing Costs: Recurring costs – impact in future years detailed in Appendix 3
 3. Budget head/performance centre: Council wide
 4. Total budget for this head £132.2m, 2011/12 Budget (excluding GLA precept)
 5. Source of funding: See Appendix 1 for overall funding of Council's budget
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Staff

1. Number of staff (current and additional): total employees – full time equivalent posts 6,845 of which 4,425 are for delegated budgets to schools (per 2011/12 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 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 2011/12 budget reflects the financial impact of the Council's strategies, service plans etc. which impact on all of the Council's customers (including council tax payers) and users of the services.

Ward Councillors Views

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

3. Approach to Budgeting

- 3.1 Forward financial planning and financial management is a key strength at Bromley and this has been recognised previously by our external auditors. This report continues to forecast the financial prospects for the next 4 years but some caution is required in considering any projections for the 3rd and 4th year of the Comprehensive Spending Review period (2013/14 and 2014/15) as well as the year following the 4-year Comprehensive Spending Review period (2015/16). The report highlights the scale of the future budget gap which includes, for example, the impact of reductions in government funding, inflation and service pressures.
- 3.2 The Council will need to continue to retain the core strengths of Bromley's budget planning. These will need to be further refined to deal with this new unprecedented period of intense change facing local government. The previous recession (which has now evolved to a period of low economic growth) means that two of the measures that have helped balance the books and kept pressure off service spending (increasing commercial income and high interest earnings) are unlikely to be available in the future at least in the medium term.
- 3.3 The 2011/12 Council Tax report identified the significant changes that impact on the Council's finances over the next few years. Savings of £22m were required over the period 2011/12 with further savings of £11m (cumulative total of £33m) identified for 2012/13 to address reductions in government funding and the need to meet inflation and service pressures. This report provides the latest forecast for 2012/13 to 2015/16. The 2011/12 Financial Monitoring Report elsewhere on this agenda highlights the latest position for 2011/12. Full details on the approach to setting the 2011/12 Budget were reported to the Executive on 14 February 2011.
- 3.4 The Budget Strategy has to be set within the context of a reducing resource base – the need to reduce the size and shape of the organisation to secure priority outcomes within the resources available. There is also a need to build in flexibility in identifying options to bridge the budget gap as the gap could increase further. The overall updated strategy has to be set in the context of the national state of public finances, unprecedented in recent times, and the high expectation from the Government that services should be reformed and redesigned. There is also a need to consider “front loading” savings to ensure difficult decisions are taken early in the budgetary cycle and provide some investment in specific priorities. The report indicates a planned approach incorporating a combination of business cost reduction, income generation and service redesign including how services are delivered, by whom and at what level. The Council's strong finances give time to undertake a considered review and reform of services over the next 4 years. This programme is set within the overall framework of the Council's Corporate Operating Principles (COP) which includes the strategy to be a commissioning organisation, reduce need for customer contact (providing alternative self service channels), operating corporately with skilled staff, being Member led, supporting independence, being efficient and non bureaucratic and delivering value for money.

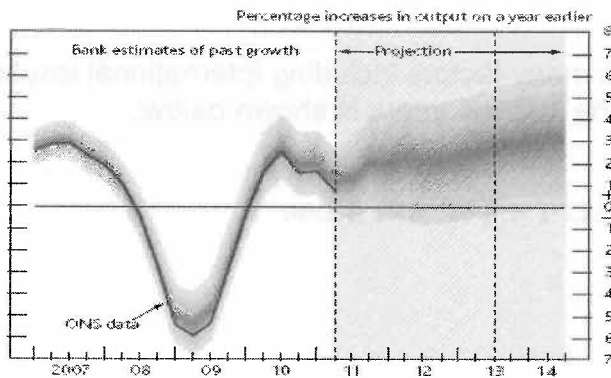
4. Economic situation which can impact on public finances

- 4.1 National debt continues to rise with current levels of over £1 trillion expected to rise to £1.2 trillion by 2012. Changes to the calculation of national debt to reflect the cost of public sector pensions and Private Finance Initiatives will increase the reported national debt to over £2 trillion. This debt equates to £79,000 per household. A longer term perspective is provided by the Office for Budget Responsibility (OBR's) Fiscal Sustainability Report which suggests that keeping the Government's finances in a sustainable position in the longer term will require further uncomfortable decisions to be implemented in the medium term, on top of delivering the tax changes already planned for the next few years. In addition, demographic pressures,

particularly from the ageing of the population, will place upward pressure on public spending. The Institute of Fiscal Studies concludes that “significant further fiscal retrenchment (tax changes) will be required over the medium term to offset the estimated detrimental impact of changing demographics, and other factors, on public finances”.

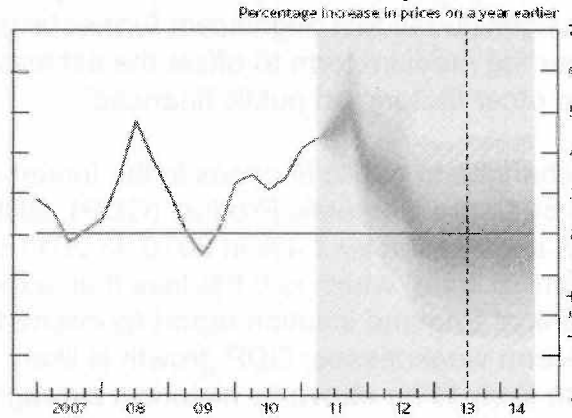
- 4.2 One key factor determining changes to public finances in the longer term relates to the level of economic growth measured by Gross Domestic Product (GDP). GDP fell by 0.1% in 2008 and 4.9% in 2009. Subsequently, it increased by 1.4% in 2010. In 2011 GDP growth was 0.5% (Jan to March) and 0.2% (April to June) which is 0.5% less than expected in the Government’s March 2011 Budget. The Bank of England inflation report (published 16th August 2011) advised that “following near-term weaknesses, GDP growth is likely to pick up gradually, so that by 2014, it is a little more likely to be above its historical average than below it”. This is illustrated in the chart below:

GDP Projection - based on market interest rate expectations and £200 billion asset purchases



- 4.3 Any global recovery is also at risk from the bank’s “wall of debt” (International Monetary Fund), particularly identified as part of the “Eurozone debt crisis”. There are many other factors such as the previous risk of the catastrophic default on the US debt of \$14.3 trillion which was recently averted. However, these factors contribute to an unprecedented period which creates economic uncertainty and could ultimately have an impact on funding available from the UK Government towards public finances. Two major structural changes in the economy are likely to limit the future growth potential of the economy: less revenues from North Sea Oil and a less expansionary banking system.
- 4.4 The latest quarterly Bank of England Inflation Report (August 2011) does not paint a positive picture for growth and inflation. Inflation, as measured by target Consumer Price Index (CPI) is likely to increase to 5% or more later this year before falling back through 2012 and 2013. The report indicates that the “timing and extent of the likely decline in inflation is highly uncertain”. The report also states that, on balance, the view of the Monetary Policy Committee is “that inflation is about as likely to be below as above target in the medium term”. This is illustrated in the following chart:

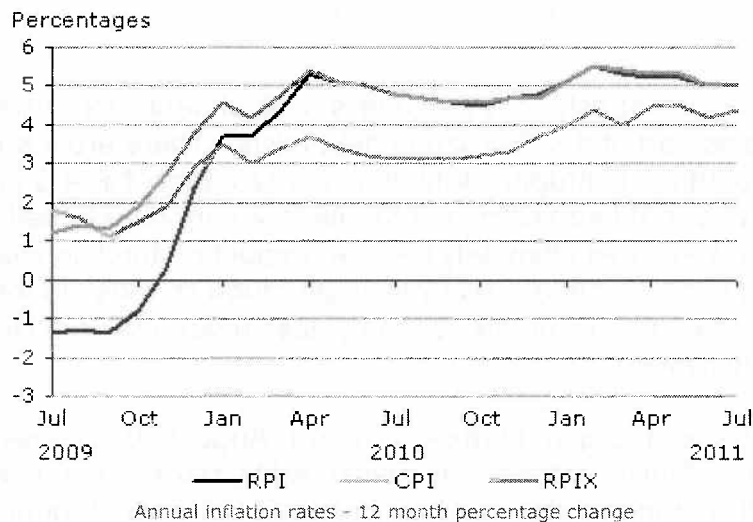
CPI inflation projection based on market interest rate expectations and £200 billion asset purchases



Inflation CPI 4.4%, RPI 5.0%

4.5 How fast inflation declines depends on many factors including international issues. A graph illustrating the volatility in inflation for the last two years is shown below:

Inflation CPI 4.4%, RPI 5.0%



CPI annual inflation – the Government’s target measure – was 4.4 per cent in July, up from 4.2 per cent in June.

4.6 All the factors identified above have an impact on the Government’s ability to change direction on planned reductions in public funding. At present, all these factors indicate that the planned reductions in funding over the next four years are likely to continue beyond that period. The key issues that impact on the Council arising from the above are:

- (a) Impact of “recession” factors likely to continue in the foreseeable future, now that the economy faces a period of low growth, uncertainty on the future etc. This includes, for example, losses of income, increased demands for services;
- (b) Inflation pressures remain for the medium term;

- (c) Interest rates will remain low in the medium term which results in lower investment income for the Council;
- (d) Government funding is likely to continue to fall beyond the four year Comprehensive Spending Review period (2011/12 to 2014/15).

5. Financial Context

5.1 More background information on the Council's spend levels, type of spend, sources of income and comparative grant and council tax levels are provided in Appendix 1. Key messages from the Appendix include:

- (a) Two of the Council's main activities which are grant funded are schools and housing benefits. Both of these areas of spend continue to be ringfenced. However, there are potential significant financial implications arising from the impact of the Academies programme, particularly "top-slicing" of funding for non delegated education spending and the changes in Housing and Council Tax Benefit (phased replacement of housing benefit to universal credit and funding for council tax reduced by 10%);
- (b) A high proportion of the Council's spend relates to third party payments, mainly contracts, which can limit flexibility to change spend levels as well as providing greater inflationary pressures;
- (c) 69% of the Council's spend is on just 5 service areas;
- (d) The Council receives a low level of Formula Grant and has maintained the second lowest Council Tax levels (Band D equivalent) by having the lowest spend per head of population in London. One of the key issues in future year budgets will be the balance between spending, Council Tax levels, charges and service reductions in an organisation starting from a low spending base. It is important to recognise that a lower cost base reduces the scope to identify efficiency savings compared with a higher cost organisation.

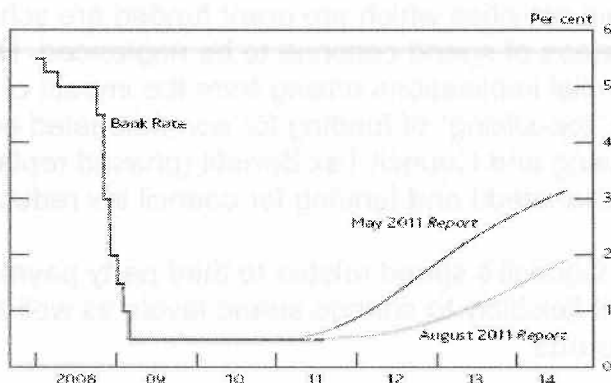
6. Changes that could impact on longer term financial projections

6.1 In considering the next four years there remain many variables which will impact on any final outcome. The most significant variations to date are shown below with a summary in Appendix 2:

- (a) Uncertainty remains on inflation. Despite previous predictions inflation significantly exceeds the Bank of England target. Inflation of 3% has been assumed in the financial forecast from 2013/14 which compares to current levels of 5% (RPIX). Although, increasing inflation will result in additional costs to the Council it could potentially also result in interest rate rises which would generate some more income for the Council. Cash limiting has also been included in 2012/13 for non contractual running costs. A Council that is as outsourced as Bromley is particularly at risk from the volatility of inflation rates. The impact of changes in inflation rates will need to be closely monitored during the financial year;
- (b) The scale of schools transferring to Academies could result in further "top slicing" in formula grant funding to the Council of between £2 million to £5 million from 2013/14, which has not been assumed in the forecast at this stage. There could be also be implications for 2011/12 and 2012/13;

- (c) The “James Review” could result in procurement changes relating to funding capital works for schools. There are various proposals being considered by the Government which could impact on the Council;
- (d) Income from interest on balances included in the 2011/12 Council Tax report assumed that interest rates will increase to 4.25% by 2014/15. The latest forecast assumes a revised level of 2.5% by 2014/15. Recent indications are that interest rates will remain low in the medium term. Examples of the recent downward projections on interest rates is illustrated in the chart produced as part of the Bank of England Inflation Report (August 2011) below:

Bank Rate and forward market interest rates (a)



Sources: Bank of England and Bloomberg.

(a) The May 2011 and August 2011 curves are estimated using overnight index swap (OIS) rates in the fifteen working days to 4 May 2011 and 3 August 2011 respectively.

- (e) Employee pension contributions will increase and the final details are awaited. Any increases in employee contributions will reduce the contribution (saving) required by the Council. Indicative proposals would result in savings of £1.3m in 2014/15 (phased from 2012/13 to 2014/15). These savings may be offset by Government plans to phase out contracted out national insurance contributions and it is unclear whether the Government will claw back any savings;
- (f) There will be a review of local government finance and the initial proposals include the abolition of Formula Grant and allow local authorities to retain business rates. Although Bromley would be a net gainer, in reality there would be a business rate equalisation scheme to support low revenue raising authorities which may offset any gains. Other Government grants will still reduce in future years to reflect planned reductions in public spending. No changes to the financial forecast have been made at this stage. There are planned 10% reductions in Council Tax Benefit Subsidy from 2013/14 which the projections assume will be cost neutral (i.e. offset by a corresponding reduction in payments). Finally more detail of the options for “community budgets” will be produced from the local government finance review;
- (g) More income may be forthcoming from New Homes Bonus which will be dependent on the net increases in future years for occupied new housing within the borough and any financial benefits may be offset by the impact of “top-slicing” other government grants to fund this initiative;
- (h) The coalition Government will introduce many changes in its first term including changes to health (including transfer of funding for public health from 2013/14), welfare benefits, localism (including new powers of competence for Councils to act in the

interest of their communities), SEN and older people etc. which have been assumed as cost neutral in the projections at this stage;

- (i) Birmingham was successfully challenged on changes to eligibility criteria which could have wider implications for local authorities, reducing scope for longer term savings. More details will be reported to a future meeting of the Executive;
- (j) There will be many other variables as the forecast is based on predicting the next four years; the longer the timescale the greater the uncertainty.

7. 2011/12 Financial Monitoring

- 7.1 The latest 2011/12 Financial Monitoring report is shown elsewhere on this agenda. The main service pressures areas impacting on future years relate to Children's Social Care Placements (children with disabilities) and older people. Management action is being undertaken to reduce the financial impact in 2012/13 and future years. Further details are included in the monitoring report.

8. Latest Financial Forecast

- 8.1 A summary of the latest budget projections including further savings required to balance the budget for 2012/13 to 2014/15 are shown in Appendix 3 and summarised below:

Variations Compared with 2011/12 Budget

	2012/13	2013/14	2014/15	1015/16
	£m	£m	£m	£m
Cost Pressures				
Inflation	9.3	17.0	24.8	32.6
Interest on balances	0.0	0.0	-0.5	-1.0
Grant loss	7.7	12.3	20.5	28.3
Real Changes (provision re 2015/16)	1.5	2.8	5.2	8.1
Total Additional Costs	18.5	32.1	50.0	68.0
Income				
Impact on 2.5% increase in Council tax	-3.3	-6.7	-10.2	-13.7
New Homes Bonus	-1.0	-1.2	-1.5	-1.7
Savings previously approved by Executive	-10.8	-9.8	-9.9	-9.9
	-15.1	-17.7	-21.6	-25.3
Further savings required	3.4	14.4	28.4	42.7

- 8.2 The key factors contributing to the ongoing budget gap are inflation, the ongoing loss of Government grants and service pressures (see Appendix 4). After allowing for the savings already approved by the Executive (see Appendix 3 and Appendix 5), there is a further budget gap of £3.4m in 2012/13 rising to £28.4m per annum by 2014/15. The budget gap for 2015/16 increases by a further £14m but this sum is purely speculative as this year falls outside the Comprehensive Spending Review 4 year period. The projections assume full implementation of the savings previously reported to Executive in February 2011 (see Appendix 5) and exclude any changes arising from the further reduction in government funding from Local Authority Central Services Equivalent Grant (see 6.1. (b)). More details of the savings were included in the 2011/12 Budget report to Executive.

8.3 The Council has to plan for a very different future, i.e. several years of strong financial restraint. The future year's financial projections shown in Appendices 3 to 5, includes a planning assumption of ongoing reductions in Government funding in 2013/14 and 2014/15 with Formula Grant being reduced to its un-damped position over the period. Projections need to be treated with caution as there will be a new system of Local Government Finance introduced for 2013/14 and beyond from the localisation of business rates. It is important to recognize that the downside risks significantly exceed the opportunities for improvement and that the budget gap in future years could widen substantially.

9. Options being undertaken with a "One Council" approach

9.1 As stated above a planned approach is required to deal with this period of intense change. Areas of work currently being undertaken are detailed below:

- (a) Chief Officers are undertaking a revised "zero based approach" on their budgets and during the summer explored options for further savings which will be reported to Members for their consideration. This work will be coordinated to ensure that there is a "One Council" approach in determining any final proposals which will be reported to the Executive;
- (b) Scope to review priorities. The financial envelope for the Council is reducing over the next four years and it is likely to continue beyond that period (for at least 10 years?). Realistically what will the Council be able to deliver to meet resident's priorities and our statutory obligations? The Organisational Improvement Team has developed a picture to help inform Members of the future priorities for the Council and identify scope for savings. This process has been reported to Improvement and Efficiency Sub Committee. This work should enable clarity on the position around service priorities in the context of the framework of legislation within which we work. It is clear from work that others have done that there is a substantially greater "grey zone" than often thought with less restriction on statutory requirements in core services. However, the legal case around Libraries in the Wirral suggests that conversely there are areas usually thought to be discretionary where significant changes will at best require very substantial consultation. This work is important to ensure that decision to move spending between services is based upon objective prioritisation, both legal and political. It is important that Member's service priorities are identified at an early stage;
- (c) A review of charging is being undertaken exploring options to generate new areas of income as well as review of existing fees and charges;
- (d) The Council raises significant income ranging from the collection of Council tax to charges for services. Work will continue to ensure that the Council maximises its income by promptly raising all monies due and minimising the level of arrears and debt write off;
- (e) Given the current financial position, any growth pressures will require alternative savings to be identified. Growth pressures are currently being reviewed by Chief Officers. It remains important that options are identified to eliminate or finance these costs within the originating service or provide policy alternatives. The core of the budget strategy in previous years has been to contain service spending within the available budget, where possible. Given the level of losses in Government funding it is more critical that any service is considered with policy alternatives to reduce spend or service reductions elsewhere. It is also worth recognising that historically any growth predictions in the four year period have been optimistic and generally growth has increased by the end of that four year period compared with previous predictions. There

is a need to explore spend to save opportunities, e.g. use of NHS support to social care monies as well as consideration of balances (see section 10.5) if there is a robust business case. This may require updates on strategies and investments for alternative service options. The table in Section 8.1 above shows that real changes increase from £1.5m in 2012/13 to £5.2m by 2014/15. These are areas of significant upward spending pressure in future years. It is important that the options available to eliminate or finance these within the originating service are modeled and brought to Members early enough to allow clarity on the policy alternatives available. This will require very detailed scrutiny and option appraisal;

- (f) Continuation of the review of previous years underspends and overspends is part of an ongoing rolling programme to ensure that budgets are as realistic as possible but also to identify any early strategies that can be adopted to assist in future years e.g. impact of overspends. The first monitoring report is elsewhere on this agenda and it remains essential that there are no overspends in 2011/12 that carry forward into 2012/13 as a budget problem;
- (g) Contract renegotiation and review savings have been included in the four year forecast. The Procurement Group which consists of senior representatives from each department is currently identifying further opportunities for future procurement savings. The majority of new key contracts will have no inflation provision for the first three years with the option to negotiate future inflation levels from year 4 onwards. This should assist to reduce inflation pressures on contract prices but has to be balanced against the risk of contract prices being "front loaded". However, given the current economic climate any front loading is expected to be minimal;
- (h) Savings may be identified from alternative methods of service delivery. Some of this work has already been undertaken as part of the savings options already identified but, linked to Corporate Operating Principles (previously reported to Improvement and Efficiency Sub Committee), opportunities remain for alternative service delivery models and potential savings to be progressed including using, for example, the voluntary sector, outsourcing and shared services. 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. It is noticeable that in many core service areas large scale competitive activity has yet to develop. Recent shared services proposals for libraries have provided potential savings for the Council;
- (i) Savings from organisational redesign is currently being led by the Chief Executive which includes organisational restructuring and any consequential review of business support functions and processes. This work will include an analysis of key support functions, examination of key processes and opportunities short and longer term to provide alternative delivery models. This work will seek to determine structural realignment, with associated savings, in accordance with Corporate Operating Principles to ensure front line delivery based on Member priorities;
- (j) Savings from Strategic Asset Management Review (property). The Council has assets with a balance sheet value of £0.9 billion and although much work has already been done, further options could be explored to consider disposals, shared use of accommodation, attracting more rental income etc. The Council could also consider the option to invest in property as a means of diversifying the risk away from treasury management low interest earnings and seek a long term alternative to current income streams. This will also help meet the Council's Area Action Plan ambitions. The Portfolio Holder for Renewal and Recreation along with his Director are leading on this work and options for funding (see also Section 10.4);

- (k) Further opportunities could be identified ranging from management and overhead reviews, value for money reviews by the Organisational Improvement Team and other cross cutting work – any impacts on reducing the budget gap would be reported back to the Executive;
 - (l) It is essential that the process to identify savings remains sufficiently robust to avoid the risk of double counting of savings;
- 9.2 The work detailed above is currently being undertaken with the aim to report initial budget proposals for 2012/13 to 2015/16 to the Executive in November/December. In addition, there is a Members Finance Seminar in October 2011 which will also provide an update on progress as well as other updated issues relating to any further changes in Government funding.
- 9.3 The Chief Executive will also provide updates on the work programme at each meeting of the Improvement and Efficiency Sub Committee. This report will also be submitted to the PDS Committees for their consideration and comments and the outcome reported back to the Executive.

10. General and Earmarked Reserves

- 10.1 An update on the Council's level of general reserves and earmarked reserves was reported to the Executive within the 2010/11 Final Accounts report in June.
- 10.2 The 2011/12 Council Tax report to the Executive referred to a target minimum level of £15m being set aside for reserves, with higher amounts being retained for specific purposes. The Finance Director has reviewed minimum level of general reserves required and recommends a sum of £25m to reflect the significant financial uncertainty facing the Council and the need to address a significant ongoing "budget gap". The current level of general reserves is £49m.
- 10.3 The 2010/11 Final Accounts report identified the one off release of £2m from the Council's Council tax collection fund in 2012/13. This report assumes that these monies will be utilised to meet the additional severance costs of £2m for 2012/13 approved by the Executive at its meeting on 14th February 2011.
- ### **10.4 Regeneration/Investment Fund**
- 10.4.1 As stated in 9.1(j) above, there is a review of key assets and this provides an opportunity to consider utilising part of the Council's general reserves to create earmarked reserve to identify key investment opportunities which will also assist in regeneration ambitions of the Council. The investment would result in the acquisition of assets to ensure the value of the monies is retained whilst seeking a long term alternative to current income streams. Effectively this should result in a level of income from investment which exceeds treasury management interest earnings. If these monies enable an increase in business activities in the borough, with a subsequent increase in business rates, then further income would be generated; further details of localisation of business rates are included in Appendix 2. Each investment decision will considered on a case by case basis which will include consideration of income stream, liquidity of asset, risks relating to asset depreciation/increase in value etc. Executive are asked to agree that a sum of £10m be set aside as an earmarked reserve funded from general balances. In addition, it is proposed that any receipts from future disposals of assets may be set aside to provide a separate regeneration/investment fund from capital resources. Any utilisation of these funds will require the approval of the Executive and the monitoring of the funds will be reported in the quarterly capital programme monitoring reports to the Executive.

10.5 **Invest to Save**

10.5.1 This report identifies the “budget gap” facing the Council which highlights the importance of ensuring there are sufficient resources for Invest to Save initiatives. It is proposed that a sum of £14m be set aside funded from general reserves, which will enable “loans” to be provided for Invest to Save initiatives with any savings taking into account an element for repaying the fund whilst generating further savings that can be factored in future years budgets. Any release of this fund, including any repayment arrangements will require the approval of the Executive. It remains essential that any business case for funding is robust and the following criteria reported to Executive in 2009 would apply:

- (a) Must provide net financial savings (significant savings with risk assessment to contribute towards reducing the budget gap);
- (b) Must provide additional progress towards meeting the Council’s top priorities;
- (c) Must have a reasonable pay back period;
- (d) No further or alternative external funding is available;
- (e) Clear identification of accountable officer, performance outcomes and monitoring arrangements to enable corrective action to be taken where required;
- (f) Contributes towards additional performance improvement for the Council or stabilises current problem areas (mitigates against additional costs).

10.5.2 Any proposal for utilising these monies will require the approval of the Executive

10.6 Subject to Members approval of 10.4 and 10.5 above the Council’s general reserves will reduce by £24m with a corresponding increase in earmarked reserves.

11. **Management of Risks and an Evolving Financial Strategy**

11.1 Details of the management of risks for 2011/12 Budget were reported to Executive as part of agreeing the 2011/12 Budget. A summary of key risk issues are provided in Appendix 6. Details of other documents to consider with the Council’s financial strategy are provided in Appendix 7.

11.2 A 4-year medium term financial planning model is the core of our financial strength and we must retain it. This is irrespective of the greater degree of uncertainty about inflation, interest rates, grant changes and new legislative changes. Continuing the approach of clear forward forecasting of income and expenditure is essential, even when accurate forecasting is not possible.

11.3 For 2012/13 to 2015/16 it remains crucial to set a multi-year budget. This means that longer term decisions and integration with policy choices are more feasible.

12 **CONCLUSION**

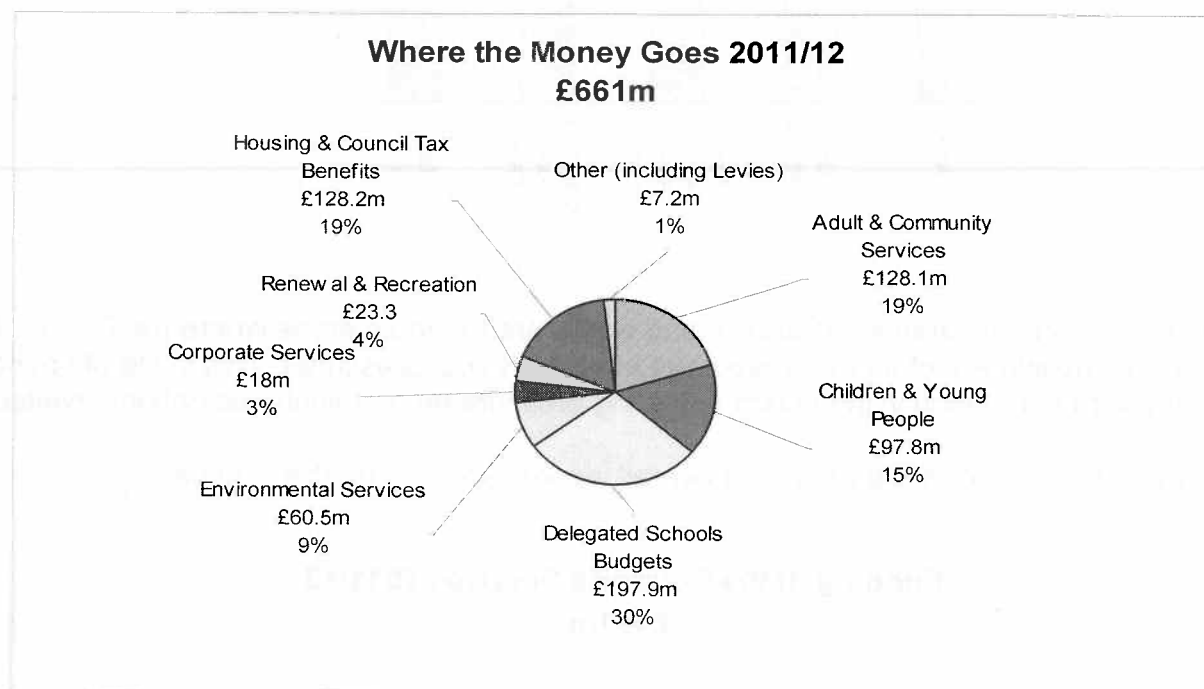
12.1 Local government faces several tight years financially and we need to plan accordingly. The savings required are likely to be a broad range of services but could focus in ways not widely anticipated at the moment. It is probable that the situation will be volatile requiring rapid change in our detailed approach but the framework should be one of tight financial forecasts and control linked to a clear strategic service direction.

Background documents	2011/12 Council Tax Report, Executive, February 2011 2011/12 Financial Monitoring Report, Executive, September 2011
Financial Considerations	Covered within overall report
Personnel Considerations	None arising directly from this report
Legal Considerations	None arising directly from this report

Background on the Council's Spend Levels

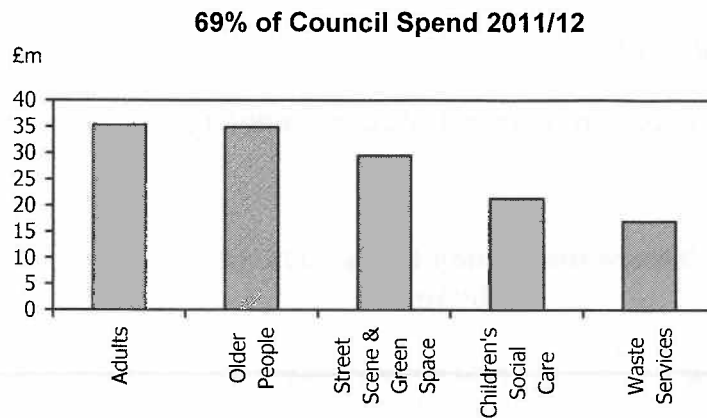
1. Cost and Funding of Services

1.1 The graph below shows the pattern of overall council spending.



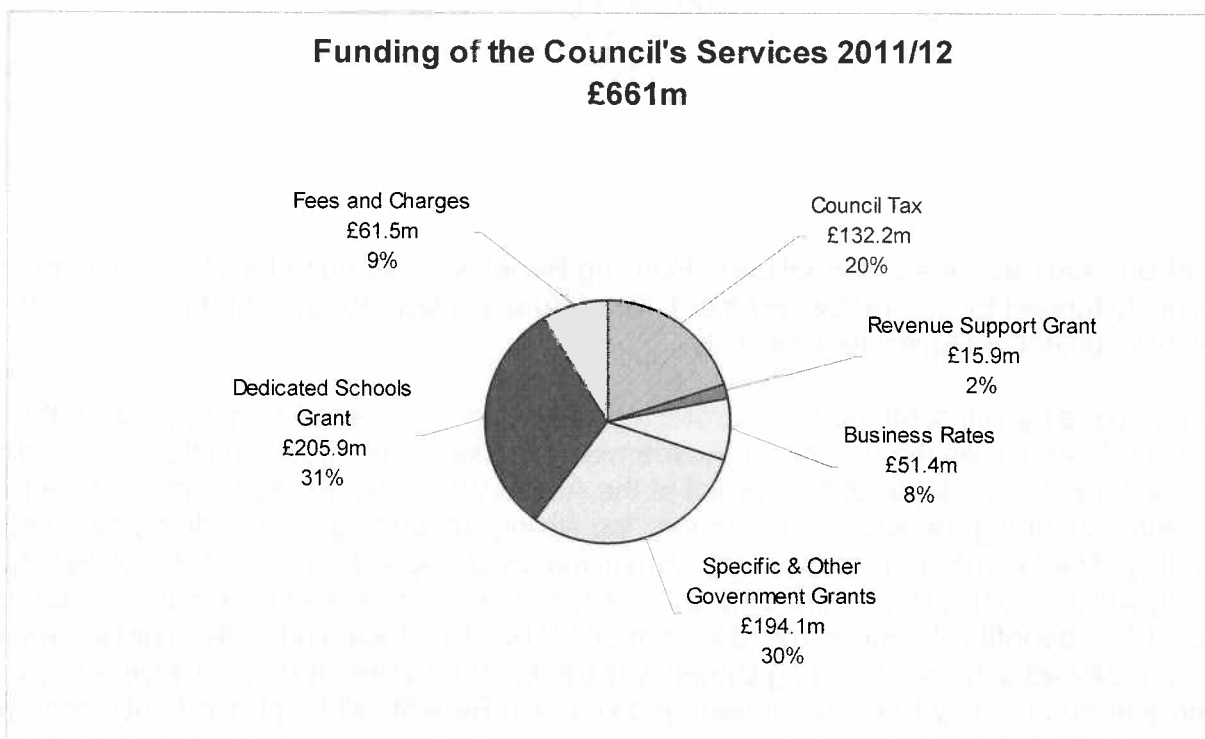
- 1.2 Two of our main activities: Schools and Housing Benefits accounting for 49% of spending are effectively funded by central Government. The future strategy for both of these services has been the subject of Government activity.
- 1.3 School spending will continue to be protected, although the level of funding through the Council will reduce as the number of Academies increase. The most significant immediate issue is the potential scale of the impact of the Academies programme on other aspects of Education spending particularly due to the “top slicing” of funding for non delegated education spending. The Government is currently consulting on changes to the level of Academies funding which could result in further grant losses to the Council (see Appendix 2). Funding Council Tax benefit will reduce by 10% from 2013/14 when local authorities will be required to have a localised scheme. Housing Benefit will be replaced within the new Universal Credit scheme announced by the Government and Housing Benefit will be phased out within three years from 2013/14. More details on the financial impact of changes in Council tax and housing benefit are awaited but there are financial risks associated with such changes.

1.4 Within the remaining services spending is very concentrated with c69% going on 5 areas.



1.5 Adults social care, children's social care and waste are the main areas where the Council has made some investment of its own resources to support cost pressures. This scale of spending combined with correlation with upward spending pressure heavily limits the options available.

1.6 The graph below shows the pattern of overall income sources for the Council.



1.7 The above table highlights the significant dependency remaining on government funding as a source of income. Also, a 10% increase, for example, in fees and charges would increase the Council's overall income levels by no more than 1%.

2. How does Bromley compare in outer London

2.1 Spend grant and taxation levels

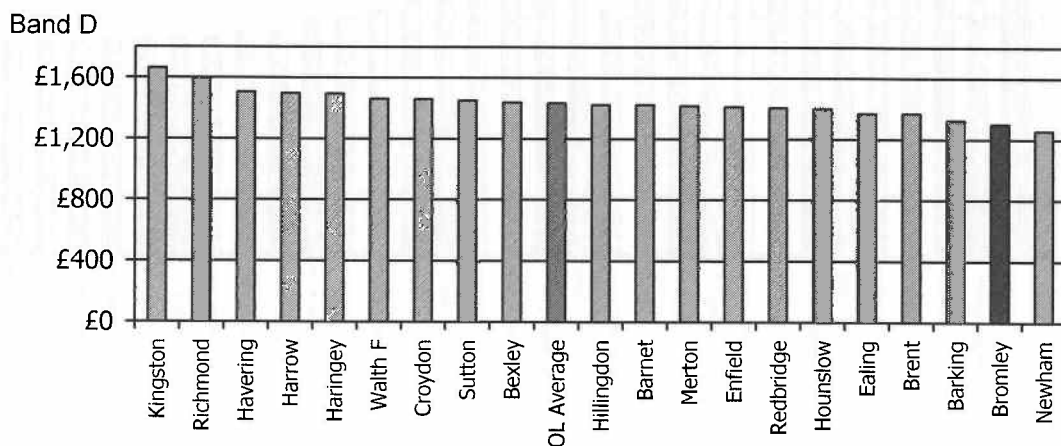
2.1.1 The other significant issue for the future budget strategy are the relative levels of spend, grant and taxation in Bromley. It is important to understand Bromley's historic starting position. Bromley receives a low level of Formula Grant, the second lowest per head in outer London.

Grant per head of population 2011/12					
	Bromley		London as a whole		
	£	Rank	Highest £	Average £	Lowest £
Formula grant	214	31 st	1,043	540	158
*Specific Grants	83	28 th	177	116	75
Total grants	297		1,220	656	233

*Based on latest available data for Specific grants only data source CLG 10/1/11, and does not include other government grants

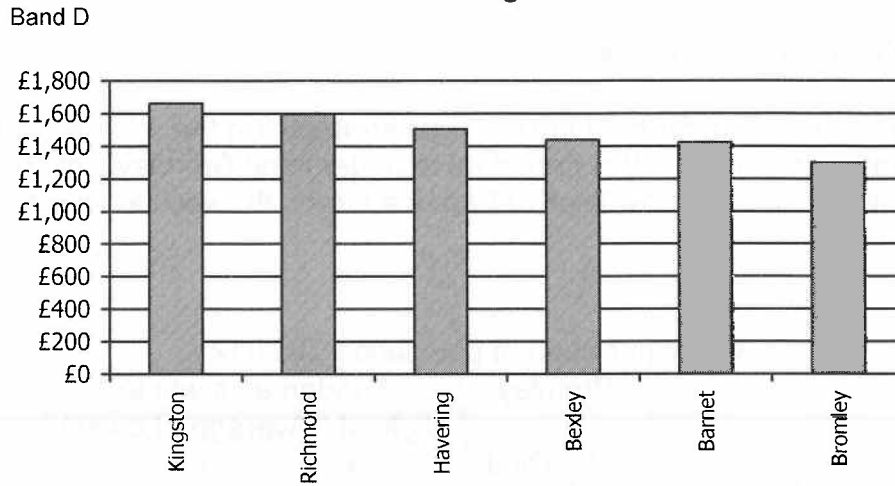
2.1.2 Bromley has had a clear strategy of setting its Council Tax amongst the lowest in outer London. It is £132 or 9.2% below the outer London Average. If the Council Tax was set at the outer London average then additional income of £17.6m would be achieved.

Outer London Council Tax Levels 2011/12



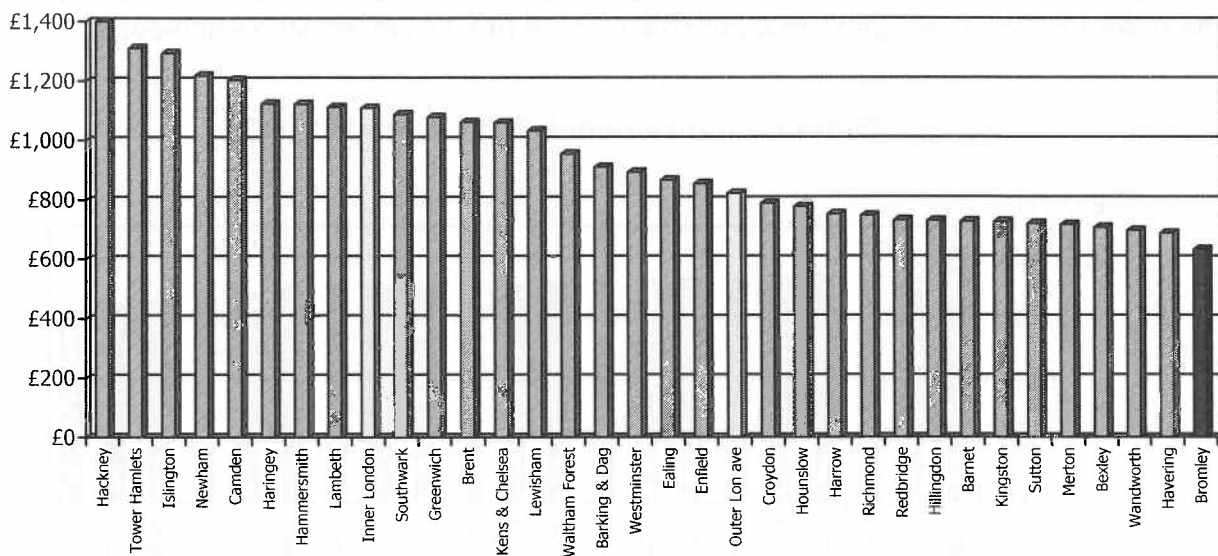
2.1.3 Most other low Grant boroughs have responded to low Government funding by setting substantially higher Council tax levels than Bromley, in some cases amongst the highest in London. Further details are provided below:

Low Grant Boroughs 2011/12



2.1.4 If Bromley's Council tax level was the average for the 5 other boroughs identified above, the Council's income would increase by £30m.

Whole of London Spend per Head 2011/12



2.1.5 Therefore, in conclusion, Bromley has retained a low council tax despite lower levels of grant funding. This has been achieved by maintaining a low spending base. It is important to recognise that the pattern of spending in Bromley both in level and pattern restricts the options facing Members. One of the key issues in future year budgets will be the balance between spending, taxation and charges and service reductions in an organisation starting from a low spending base.

VARIOUS KEY CHANGES/PROPOSALS/ISSUES THAT COULD IMPACT ON THE COUNCILS FINANCES

APPENDIX 2

<p>Schools Funding Local Authority Central Services Education Grant (LACSEG)</p>	<p>Consultation paper issued for response by 16 August 2011</p>	<p>Top slice funding reduction of £0.8m in 2011/12 and a further £0.6m in 2012/13 (cumulative total of £1.4m) has been reflected in the Council's budget. This sum is based on the impact of "average" transfers across local authorities. If the formula was based on actual transfers per individual local authority the reduction in funding would have increased to a total of £3.5m by 2012/13 – further potential loss of grant income of £2.1m. Consultation paper includes an option that would potentially increase loss of grant to Bromley by approx. £6m. Not clear whether any retrospective adjustments can be made to 2011/12 and 2012/13 funding – will require parliamentary approval. However, there will be a significant impact for 2013/14 and future years. Could impact on funding to Bromley schools depending on final option chosen. Detailed financial models awaited.</p>
<p>Review of School Funding</p>	<p>Consultation paper issued for response by 11 October 2011</p>	<p>Revised future role of Local Authority to collect building condition and school data and provide DfE with an investment plan by 2012 (replaces Education Asset Management Plan). Also national procurement arrangements (through central body) may go ahead limiting the role of local authorities in procuring major works</p>
<p>Review of Education Capital</p>	<p>Consultation paper issued for response by 11 October 2011</p>	<p>Revised future role of Local Authority to collect building condition and school data and provide DfE with an investment plan by 2012 (replaces Education Asset Management Plan). Also national procurement arrangements (through central body) may go ahead limiting the role of local authorities in procuring major works</p>
<p>Local Government Resource Review Proposals for retention of business rates</p>	<p>Consultation paper issued on 18 July 2011 with 8 technical papers to follow. Consultation closes on 24 October 2011</p>	<p>Bromley could benefit from this proposal on the basis that: (a) It will continue to see real growth in our business rate base; (b) The Council is presently receiving over £6m (2012/13) in Formula Grant damping which may be "protected" under the current proposal; (c) The Council could factor business rate retention monies, as part of a business case, in any future development proposal that would increase the business rates base. Technical papers which will provide more details of the implications of the proposals are awaited.</p>
<p>Council Tax Benefit Localisation</p>	<p>Consultation paper issued on 2 August 2011. Consultation closes on 14 October 2011</p>	<p>Local Authorities will receive an unringfenced grant reflecting a 10% reduction (equates to approximately £1.9m based on 2011/12 Budget. No changes to current level of support for pensions (about one third of claimants). Potential reduction in entitlement of other claimants of 15% to match reduction in funding – the Government proposes some protection to other claimant groups. The Council has faced year on year increases in claimants and associated costs which is unlikely to be funded by government within the proposals representing a further cost risk.</p>
<p>Community Budgets</p>	<p>Details awaited</p>	<p>There are currently various community budget pilots and any proposals are awaited</p>

Other Changes		
Inflation	CPI 4.2%, RPI 5% RPIX 5% June 2011	Overall 1% increase equates to £2m if all elements of costs are included e.g. pay awards, income etc.
Public Sector pensions	Government to fully respond to Hutton Commission and review current contribution rates by October 2011	Local Government Pension Scheme has been granted autonomy to formulate its own packages of reform on basis that savings of £0.9bn per annum will be found. Any package of reforms will need to be agreed by the Treasury and include a combination of increases in employee's contributions and changes to benefits of current scheme. The Government is seeking savings of £2.8bn per year for all public sector pension schemes equivalent to an average increase in member's contributions of 3.2%. Any savings to the Council could be offset by the possible phasing out of contracted out National Insurance to fund the future Universal State Pension.
Dilnot Review of Adult Social Care	Report produced by Dilnot on adult social care. Government will publish a white paper in spring 2012 which may reflect some of changes – implementation of any changes may be after next general election	<p>Recommendations include:</p> <ul style="list-style-type: none"> (a) A £35k cap on care costs (age 65 years and above); (b) Free care to those who acquire needs before they turn 40 years; (c) An annual cap of between £7k and £10k on living costs in care home; (d) A national assessment and eligibility system; (e) Increasing means testing threshold to £100k and capping individual costs; (f) Councils can still set their own charges for non residential care services. <p>The reforms would cost (initially) £1.7bn nationally to deliver and these costs will increase in future years. Government will publish a white paper in spring 2012 which may reflect some of changes – implementation of any changes may be after next general election. The cost implications for the Council will depend on the final implementation of any proposals and whether funding is provided by Government to meet the costs.</p>
Open Public Services	White Paper published and is subject to a "listening period" between July and September 2011	Proposals include offering personal budgets for SEN as well as disability budgets (adult social care by 2013 is already planned). Empower communities through community ownership schemes and the community right to challenge (including challenge to run local authority services). Also introduce an "open commissioning" policy to allow challenge by potential providers as to how services are shaped and delivered. Also includes exploring opportunities for local authorities to be the peoples champion for all public services in their area. Not possible to identify any cost implications at this stage.
Localism Bill		Over 140 regulation making powers, order making powers, guidance, statutory requirements and duties. Includes general power of competence, elected mayors, standards, pay accountability, EU fines, community empowerment, localisation of business rates, planning, housing and London (GLA)
New Burdens Doctrine	Guidance for Government Departments	This relates to guidance for Government departments which can be used by Bromley to seek justification/review of any changes that result in additional costs without adequate funding from Government. Government departments are required to ensure that the net additional cost of all new burdens placed on local

		authorities by government departments is assessed and "fully and properly funded". This will ensure that the "pressure on Council Tax is kept down".
New Homes Bonus	Introduced from 2011/12	Funding identified to 2014/15 with commitment from Government to fund beyond 2014/15 from top-slice of the national business rate pool.
Welfare Reform: Changes to housing benefit		Housing Benefit will be replaced with Universal Credit with housing benefit phased out from October 2013 and October 2017. Responsibility for crisis loans and community care grants will be transferred from DWP to local authorities. The Council receives grant funding of £111m for housing benefit and there are potential cost implications arising from the transfer period as well as potential one off costs that are required. It is not clear whether these costs will be fully grant funded.
Demographic and Population Changes		Data from recent census is awaited. London's population is set to rise by 9% over the next ten years. The largest increase is expected to be those aged 85 years and over and by 2035, the number of people aged 85 and over is projected to be 2.5 times larger than in 2010 across London. The impact of longer life expectancy is also likely to have an impact on the demand for social care services and SEN.
Interest on Balances		Income of £2.7m is assumed in the 2011/12 Budget. The financial forecast assumes interest on new investments as follows: 1.5% in 2012/13, 2% in 2013/14, 2.5% in 2014/15 and 3% in 2015/16 A variation of 0.25% in these assumptions would result in an increase/decrease in the interest forecast of around £100k in 11/12, £360k in 12/13 and around £430k pa thereafter.
2011/12 Financial Monitoring	Report to Executive September 2011	The most significant cost pressure which could have an impact on the 2012/13 and future years budgets is residential care for children with disabilities. There is a projected overspend of £0.6m to date. There are also cost pressures relating to older people. Further details are included in the 2011/12 Financial Monitoring report elsewhere on this agenda. No additional costs in 2012/13 have been assumed in the financial forecast at this stage.
Comprehensive Spending Review		The financial forecast includes assumptions about future reductions in Government funding. The Council has a two year financial settlement for 2011/12 and 2012/13. General assumptions have been made about further reductions in 2013/14 and 2014/15 which is the final 2 years of the current Comprehensive Spending Review period (2011/12 to 2014/15). "Speculative" assumptions have been made about funding in 2015/16 on the basis that reductions in government funding will continue beyond 2014/15.

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Bromley's Budget Requirement in 2011/12 (before funding from Formula Grant)	199,486	199,486	199,486	199,486	199,486
Increased costs (general inflation 4.5% to 2012/13 and 3% thereafter, pay awards 3% in 2012/13)		9,267	17,038	24,812	32,590
Formula Grant	-67,320	-67,320	-67,320	-67,320	-67,320
Draft "standstill" Budget	132,166	141,433	149,204	156,978	164,756
Variations in interest earnings		0	0	-500	-1,000
Total grant loss as reported to Executive in January 2011(2012/13 to 2014/15)		7,660	12,262	20,500	28,302
Real Changes and other Variations (see Appendix 4)					
Adults and Community Services		234	795	1,685	1,685
Environment		-153	371	895	895
Children and Young People		650	650	650	650
Other (mainly council wide)		771	1,027	1,962	1,409
Further real changes 2015/16 (provisional at this stage)					3,500
Sub total - real changes and variations		1,502	2,843	5,192	8,139
Sub total		150,595	164,309	182,170	200,197
Various savings approved by Executive during 2010/11		29	-69	-158	-158
NHS funding towards social care pressures (fall out of monies for ongoing commitments)		0	1,000	1,000	1,000
London Boroughs Grant Cttee		-183	-183	-183	-183
Cash limiting of non contractual costs		-1,000	-1,000	-1,000	-1,000
Potential savings from review of key contracts in Environmental Services		-750	-750	-750	-750
Review of corporate services		-350	-350	-350	-350
Additional savings approved by Executive as part of 2011/12 Budget (see Appendix 5)		-8,455	-8,455	-8,455	-8,455
Total savings		-10,709	-9,807	-9,896	-9,896
	132,166	139,886	154,502	172,274	190,301
New Homes Bonus	0	-1,000	-1,250	-1,500	-1,750
Remaining Sum to be met from Council Tax/Budget Options	132,166	138,886	153,252	170,774	188,551
To achieve a 2.5% increase in 2012/13 and future years would require further savings of (£'000):					
Cumulative	132,166	-3,416	-14,395	-28,446	-42,665
Annual		-3,416	-10,978	-14,051	-14,219

APPENDIX 4

SUMMARY OF REAL CHANGES (2012/13 TO 2015/16)

	2011/12 Budget	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
ADULT AND COMMUNITY SERVICES					
- Adults with learning difficulties					
Learning Disabilities - new placements	24,151	676	1,679	2,569	2,569
Savings from Extra Care Housing	-91	-442	-884	-884	-884
Total real changes ACS		234	795	1,685	1,685
ENVIRONMENT					
Absorption of inflation increases for PCNs	-4,060	95	193	293	293
		95	193	293	293
Other cost pressures/ growth					
- Waste					
Landfill tax increases	3,506	-1,364	-945	-528	-528
Increase in waste contract prices and contract disposal targets		1,084	1,059	1,034	1,034
Increase in refuse/recycling collection to reflect additional units and leap year addt costs	7,203	32	64	96	96
Sub total (waste)		-248	178	602	602
Total real changes (E)		-153	371	895	895
Children and Young People (CYP)					
Children's Placements/additional referrals	10,934	500	500	500	500
Additional pressures (SEN transport - Exec Jan. 2011)	3,405	150	150	150	150
Total real changes (CYP)		650	650	650	650
OTHER VARIATIONS (MAINLY COUNCIL WIDE)					
Other net cost pressures/ growth					
Additional allowance for increased fuel costs	2,663	300	600	900	900
Local elections	0	0	0	500	0
Net loss of income from proposed sale of car park sites	-500	296	296	296	296
<i>Freedom passes</i>					
- additional cost of reissue of Freedom passes every five years	19	0	110	0	0
Carbon Reduction Commitment (CRC)	386	130	261	393	393
Reduction in funding of operational costs (Bromley Mytime)	705	-95	-520	-527	-580
Housing and council tax benefit - real reduction in admin subsidy	-1,872	140	280	400	400
Total real changes (mainly council wide)		771	1,027	1,962	1,409
Assumed growth pressures (2015/16)					3,500
TOTAL OF REAL CHANGES		1,502	2,843	5,192	8,139

Overall Savings across all Departments for 2012/13

Department	Budget 2011/12 £'000	Budget Option Identified	Savings 2012/13 £'000
Human Resources			
	398	Delete L& D Consultant 1 fte, delete Health and Safety Advisor 0.5 fte	-59
			-59
Resources Department			
	1,258	Exchequer Services - Reorganisation of team(s) and option to outsource	-65
	2,100	Restructure of Financial Management	-22
	283	Salaries LBBexley	-45
	442	Staff reductions linked to shared service with LBG	-27
	442	Staff reductions linked to shared service with LBG	-18
	336	Contract adjustment	0
	0	Bexley shared services - £25k expected for 2010/11	-40
	301	Increase in housing benefits overpayments collection	-90
	1,170	Redundancy/Retirements once new contracts bedded in	-87
	6,290	Closure of cashiers service	-30
	0	Responsible Officer role academies plus internal audit work	-15
	0	Reductions in bad debt provision due to improved cash collection	-200
	1,505	Running expenses, cheque production, external audit, Training etc	-130
	1,288	Shared Services LB Bexley & Consolidation of teams	-52
	740	Reductions in Porters/Refreshment/Mayor's Office/Post	-80
	0	Shared services with Bexley	-40
	855	Customer Service - Channel Shift	-20
	0	Customer Service - Shared Service	-20
	0	Use of Portfolio Holders Room/Chairman's Office for Weddings	-5
	0	External use of committee rooms	-5
	0	Academies	-5
	30	Use of telephone, internet and text messaging registration	-2
		Amalgamation of receptions	-35
		Accommodation Review linked to item above	-100
		Charges for staff car parking	-75
			-1,208
Children & Young People Services			
Awards Transport and Pupil Benefits	200	Cease funding Pupil Clothing and Footwear Grants	-100
Bromley c and f project	2,814	Children & Families Centres	-2,200
Standards and Achievement	413	BYMT - contract reduction	-40
Strategy and Performance	490	Strategy & Performance	-100
Integrated Youth Service	1,986	Universal and Targeted (Connexions) Youth Support	0
Access and Inclusion	473	Align the Behaviour Support Service with the Education Welfare Service	-50
Access	100	Bromley Transition Service	-50
			-2,540
Adult & Community Services			
Strategy Division	1,566	Back office efficiencies - strategy division	-25
Housing & Residential Services	619	Housing Division Rationalisation	-50
Strategy Division	525	Learning & Development Savings	-25
Strategy Division	138	Discontinue/reduce social care front counter & imprest service	-100
Care Services	1,992	Cease In-house homecare provision	-200
Care Services	-4,160	Charging	-100
Care Services	-35	Increased savings from Extra Care	-10
Care Services	0	Reablement	-200
Care Services	4,948	Staff savings - Care Services	-100
Commissioning & Partnership	2,998	Reduce commissioning of supporting people services	-300
Care Services	526	Reduce funding to Sheltered Housing	-300
Commissioning & Partnership	66,533	Efficiency targets for all suppliers	-350
Care Services	0	None eligible day care users paying full cost	-50
			-1,810

Department	Budget 2011/12 £'000	Budget Option Identified	Savings 2012/13 £'000
Environmental Services			
Street Scene & Green Space	-111	Legislative change will allow disposal costs to be fully recovered through charges (currently discounted)	-58
Street Scene & Green Space	100	Introduce automated weighing system and payment facility	0
Street Scene & Green Space	212	Phased closure of Public Conveniences - retain provision within Primary Town Centres	-100
Street Scene & Green Space	897	Reduction in services provided by the Area Inspectors, leading to reduction of 3 ftes	-102
Street Scene & Green Space	2,595	Reduce Ranger Service and reduce park security contract	-135
Street Scene & Green Space	-1,603	Increase prices above inflation for Trade Waste resulting in extra income	-32
Street Scene and Green Space	400	Diminishing playground repairs and equipment replacement. No new seats/bins in parks and reduce repairs to paths/fencing	-31
Public Protection	15	Terminate service relating to subsidised Pest Control treatment on income support. No renewal of contract/introduce a preferred supplier contract if possible.	-15
Customer and Support Services	305	Reduction in support services, running costs and promotional projects	-21
Transport/Highways	129	Reduced frequency of highway/footway condition surveys and use of bureaux service for data analysis and a deletion of 1fte in 2013/14	-15
Transport/Highways	233	Phased deletion of School Crossing Patrols	-233
Transport/Highways	583	Reduction in Traffic Posts or transfer costs to TfL budgets	-126
Transport/Highways	161	Reduced number of surface water drainage schemes	-14
Transport/Highways	88	Reduced levels of service for inspections and minor repairs of highway structures	-13
Transport/Highways	323	Reduced levels of service for non-routine maintenance of street lights & signs	-38
Transport/Highways	342	Delete Highway Development Team Leader post	-52
Transport/Highways	129	Reduced levels of service - minor street lighting improvements	-10
Street Scene and Green Space	0	Caddy Bags no longer funded	-295
Street Scene and Green Space	20	Withdraw additional recycling collection during Xmas fortnight	-20
Street Scene and Green Space	42	Reduce grant to Chislehurst Conservators	-6
Street Scene and Green Space	647	Stop Parks Strategy, close park toilets, reduce sports grants, reduce allotment rents, stop events and campaigns, reduce support to Park Friends	-43
Transport/Highways	606	Change lamp column replacement policy from schemes two one for one	-117
			-1,476
Renewal & Recreation			
Property	369	Reduce budget. Make provision in future planned maintenance programmes for replacement of elements with non maintenance/non decoration items. E.G. PVCu windows, etc.	-79
Property	208	Reduce budget. Many of the DDA works have been carried out. Further works should be incorporated into planned refurbishments/alteration where possible.	-100
Property	836	Reduce budget. Surveys and risk assessment on all properties have been completed. Asbestos is removed where necessary and a full management programme is in place. The decay curve has meant that reduced spending will occur in this activity.	-100
Property	211	Reduce budget. Works and Control measures put in place to reduce cyclical activity e.g. replacement of A/C water chiller units with gas chillers negating the need for water treatment.	-100
Property	66	Reduction in MG5 post in Maintenance	-66
Property	66	Reduction of MG5 post- CYP Strategic Property Manager associated with reduction in capital programmes and transfer of schools to academy status	0
Recreation	705	Delete Bromley Mytime Management Fee	-583
Recreation	705	Amendment to savings relating to deletion of management fee payable to Bromley Mytime as agreed by Executive	278
Recreation	32	Revised proposal to withdraw Bromley Arts Council funding over 3 years as agreed with R & R PH	-14
Renewal	101	Arts Council as agreed with the R & R PH	-21
Recreation	39	Remove subsidy to Norman Park Track	0
Recreation	5,211	Tender caretaking/security services at libraries	-50
Recreation	180	Amalgamate Penge and Anerley Libraries	-90
Recreation	180	Amalgamate Penge and Anerley Libraries (delay in savings as no suitable building has been identified to date)	90
Recreation	5,161	Reconfiguration of Library Service relating to savings brought forward relating to shared back office with LB Bexley as agreed by Executive	-370
Planning	316	Transfer of planning inquiry counter to CSC. Reduction of 1 post (£22k)	-22
Planning	931	The Core strategy is a key part of the LDF. Because of the age profile, it is likely that there will be scope for budget savings. This will be further informed by ongoing work in respect of development control and planning administration.	-132
Planning	316	Potential additional savings from planning administration	0
BAEC	149	Reduce general budgets e.g. advertising, travelling etc	-3
Planning	845	Deletion of 2 career graded posts within development control	0
			-1,362
	TOTAL		-8,455

Appendix 6

MANAGEMENT OF RISKS

Ref.	Risks	Commentary and risk mitigation
	Treatment of inflation	General allowance of 4.5% built into forecast for 2012/13 and future years. Cash limiting of non contractual running expenses assumed in 2012/13. Actual increases in inflation exceeding budget assumptions would result in further costs.
2	Partners	The reduction in Government funding will also have a negative financial impact on the Council's health, voluntary sector and other partners. This position will be closely monitored.
3	Containing Growth Pressures within Portfolio Budgets	The real changes included within this report relate to key growth pressures impacting on Portfolios. This excludes many costs pressures contained within departmental budgets which provides increasing difficulties in maintaining key service provision.
4	General reserves	General reserves risk reducing in longer term for supporting capital programme which would also result in reduced investment income for the Council.
5	Formula Grant/Localisation of Business Rates	The Council remains at the grant floor with floor damping of £9.6m in 2011/12 reducing to £6.3m in 2012/13. No future allowance for statutory growth, demographic changes and future capital financing costs are reflected in the future grant levels. Funding will deteriorate beyond 2012/13 but not clear level of further reductions at this stage. The final position will depend on the outcome of the localisation of business rates. Formula Grant is likely to be included in "baseline" for determining net income received by the Council.
8	Limiting council tax increases	Council Tax (Band D equivalent) remains one of lowest in outer London. Secretary of State's assessment of excessive Council tax increases may continue for 2012/13 (capping) limiting flexibility to fund pressures on key services through Council tax increases. Any deemed "excessive" increase, as determined by the Secretary of State will require a referendum in future years to determine if proposed increase is acceptable to residents. Significant costs from rebilling Council tax may be incurred.
9	Savings	Significant savings were identified for 2011/12 with further savings of £11m in 2012/13. There are risks of not achieving potential savings. It is important to mitigate risk by close monitoring and more active management of implementing savings. Also consideration of outcome of consultation could impact on savings achieved.
11	Fuel costs increases	Additional provision of £600k in 2011/12 (included in 2011/12 Central Contingency Sum) rising by £300k per annum but may be additional pressures, increasing costs further.
12	Future schemes in capital programme	Any additional schemes could have an impact on the revenue budget as well as potentially reducing revenue reserves.
13	Pension Fund Deficit	Outcome of recent actuarial valuation was reflected in 2011/12 Budget. Next valuation will be implemented from 2014/15 which could result in further cost pressures.
15	Departmental Risk Analysis	A detailed departmental risk analysis was reported to Executive in February 2011 as part of the 2011/12 Council Tax report.
16	Strength of financial information and reporting	Previous score of 4 for Use of Resources gave assurances of strong financial information and reporting arrangements. Latest Use of Resources assessment would have resulted in ongoing assessment score of 4 (but now ceased).

Ref.	Risks	Commentary and risk mitigation
17	Impact of previous years overspends /under spends	In most cases, the 2011/12 Budget takes into account projected savings/under spends from previous financial year. Further details of cost pressures which may impact in 2012/13 are included in the 2011/12 Financial Monitoring report elsewhere on this agenda.
18	Robustness of medium term plans	The 4 year budget strategy include prudent estimates of spending pressures but uncertainty remains in any longer term financial projections
19	Financial risks of new partnerships and outsourcing	Always a risk of cost pressures through re-tendering to "catch up" with historical higher than general inflation increases in staff costs, and various new statutory obligations. Recent re-tendering has, in general, resulted in cost savings.
20	Flexibility to divert resources	May be opportunity to review utilisation of resources (although may be limited scope) relating to new core grants e.g. NHS funding to support social care.
21	Partnerships/pooling of budgets	The forecast assumes the existing four year plans continue. Pooled budgets include, for example, adults with learning difficulties and joint OT stores. There remains a risk of withdrawal of funding from partners, which could impact on Council's financial position, particularly where the Council's services are dependent on part funding from partners (see also 2. above).
22	Collection of Income	The Council collects significant amounts of income. Any variation on current collections levels can have a significant impact on the budget. The state of the national economy impacting on the local economy is likely to continue to have a negative impact on income levels. Close monitoring of overall income levels required to ensure, where needed, early corrective action is required and new improved methods of collection are implemented.
23	Financial Projections over 4 years	<p>The projections are subject to change and should be treated with caution as they reflect estimates of costs for the next four years. Costs tend to move upwards closer to finalising budgets for the following reasons:</p> <ul style="list-style-type: none"> (a) Impact of new Government legislation not known at early stages; (b) Various items remaining uncertain/not quantified which can be quantified once final details are known; (c) Impact of potential further real reductions in government funding given current level of national public debt. <p>Current Government changes which could have an impact on the Council's finances are shown in Appendix 2. These changes as well as future changes will need to be regularly monitored and assessed to consider the financial impact on the Council.</p>

Appendix 7

Key Documents to consider with Council's Financial Strategy

Document	Examples of information relevant to Council's financial strategy
The Prudential Indicators 2011/12	Reported in the "Capital Review 2010" report to Executive which considers the "affordability" of the capital programme in line with financial strategy.
Local Government Finance Settlement 2011/12	Reported to January 2011 meeting of Executive and represents a two year financial settlement. The report highlighted the ongoing reduction in funding in future years.
Statement of Accounts 2010/11	Pre audit statement of accounts available on One Bromley and examples of information relevant to financial strategy includes: <ul style="list-style-type: none"> (a) Pension Fund solvency level at 84% and the 2010 actuarial valuation set the level of employers contributions required to achieve 100% solvency within 12 years. 2011/12 Budget includes impact of the 2010 actuarial valuation; (b) Details of financial contributions of partnerships which includes, for example, learning disabilities and integrated community equipment with shared gross expenditure of £10.8 million. The Council's contribution to the pooled budget for mental health functions was £1.4m in 2010/11; (c) Details of earmarked reserves of £12.7m as at 31/3/11.
London Borough of Bromley Financial Profile	Gives some historical context and additional background information on formulating the Council's financial strategy. Available in "One Bromley".
Building Maintenance Budgets 2011/12	Reported to Executive in March 2011 with details of planned programme.
Council Tax Report 2011/12	As part of the requirement of the Local Government Act 2003, the Director of Resources set out his view that the Council's process for setting the 2011/12 Budget has been robust and also provides his views on the level and use of reserves. Details of projected level of earmarked reserves are included in the report as well as details of levies (including GLA precept), central contingency sum, council tax base and collection fund.
Financial Regulations	Key document included seeking assurances about competitive tendering of contracts etc. Revisions reported to Council in May 2011.

Document	Examples of information relevant to Council's financial strategy
Risk Management Strategy	Identifies key risks and action to mitigate these risks. Details were reported previously to Executive.
Procurement Strategy	Details were reported previously to Executive and identify a procurement strategy which helps secure value for money for the Council in procurement decisions.
Corporate Asset Management Plan 2007-2012	Reported to Resources Portfolio Holder and includes details of asset disposals and targets for future years.
London Borough of Bromley Capital Strategy	Details the approach to the capital programme and is available in "One Bromley".
Annual Audit and Inspection	Bromley previously achieved a score of 4 (out of 4 – performing strongly) in its annual use of resources assessment (organisational assessment).
Housing and council tax benefit and revenue & exchequer services half yearly monitoring reports to Resources Portfolio Holder	Reports highlight targets and action being taken. The service performance has a direct financial impact on the Council and the strategy adopted is included within these reports.
Treasury Management Strategy 2011/12	Reported to Resources Portfolio Holder and identifies the strategy for managing the significant funds held by the Council.