Brent	**Cabinet** 13 September 2016 **Report from the Chief Finance Officer**
	Wards affected: ALL
Financial Position 2017/18 – 2019/20 and option to fix RSG settlements	

1. Introduction

1.1. This report sets out the council's medium term financial position and the major strategic considerations arising from this. This will provide context for proposals for the budgets for 2017/18 and 2018/19, which the council will need to set over the coming months.

1.2. However, one feature of last year's local government settlement was the option for councils to 'fix' their future revenue support grant (RSG) settlements until 2019/20, after which the entire local government finance system is proposed to be re-set. A decision on whether or not to accept this proposal must be taken by 14 October 2016.

1.3. As this date is before Brent's next Cabinet meeting the relevant advantages and disadvantages of this proposal are set out for consideration here. It is proposed that the decision should be delegated to the Chief Executive, in consultation with the Leader in order that this deadline could be met.

1.4. There are arguments either way, but on balance it is proposed that the offer of a four year settlement should be accepted. It would in principle be perfectly possible to take the decision to accept this settlement now. However, it is proposed to delegate this decision on the basis that there are considerable economic and financial uncertainties in the system at present, and it is possible that the balance of considerations may change over the next four weeks.

1.5. If the council chooses to fix the RSG settlement until 2019/20 it will have to submit an 'efficiency plan' to DCLG with that. Central government has been clear that it is not taking a prescriptive approach to these plans, and that its expectation is that they will be fairly short and not unduly onerous to complete. However, this is nonetheless another good argument for delaying the decision, in case further guidance is issued and in any event to ensure that Brent's approach is not inconsistent with that taken by other local authorities.

1.6. This report also sets out a brief update on the financing options for the council's investment strategy, and recommends delegating authority to the chief finance officer, in consultation with the deputy leader, to procure specialist financial advisers to assist in the process.

2. Recommendations

2.1. That Cabinet note the overall financial position and the risks inherent in it.

2.2. That Cabinet note the overall arguments for and against accepting a fixed settlement of its RSG until 2019/20, and that on balance the advice is in favour of accepting it.

2.3. That Cabinet delegates to the Chief Executive and Leader authority to decide whether or not to accept the fixed RSG settlement.

2.4. That Cabinet delegates to the Chief Executive and Leader authority to submit an efficiency plan to DCLG as part of any decision to accept a fixed RSG settlement.

2.5. That Cabinet note the position in particular in respect of business rates devolution and how this might progress, and that the chief finance officer will continue to respond to technical consultations as necessary.

2.6. That Cabinet note the progress in developing a financing programme for the investment strategy.

2.7. That Cabinet agree to delegate procurement and appointment of specialist financial advisers to assist in the financing of the investment strategy to the Chief Finance Officer, in consultation with the Deputy Leader.

3. Recent Financial History

Budget Setting

3.1. At the beginning of the austerity regime, in 2010, the council adopted a highly successful "One Council" programme. From 2010 to 2014/15 the One Council programme made a substantial contribution to the £89m savings delivered in that time, although of course difficult choices about the levels of service provision also had to be confronted over this period to meet the financial targets. Further savings of £53.9m were required in 2015/16 and 2016/17, when the council shifted its focus to a more target driven approach which required Directors to assume more personal accountability for delivering efficiency savings within their own areas of responsibility.

3.2. The council has adopted a longer term view of its financial planning over this period, ensuring that its focus is two or three years ahead, not just on balancing the budget for the next year. Most recently, the 2016/17 budget also included £24.7m of planned savings for 2017/18 and 2018/19, which were agreed by Council.

3.3. Whilst these savings were not entirely sufficient to balance the budgets for 2017/18 and 2018/19, they considerably reduced the budget gap that needs to be closed. As a result, the scale and value of savings that the council is likely to need to confront in setting the budget for those years should be lower than in recent years. Although difficult choices will continue to need to be made, the council will also have the opportunity, through the budget process, to take stock of its position and the levels of service being provided, and consider whether some short, focused and time limited investments might be afforded to tackle key issues.

Key financial risks

3.4. This report goes on to identify the key strategic financial issues facing the council, including the possible macro-economic consequences of the referendum vote to leave the EU and how these might impact on Brent, and the possible consequences of the substantial changes proposed to how the local government finance system will operate. However, before turning to these wider issues it is essential to note some key risks that are much more directly in the council's control, as failure to mitigate these successfully would significantly impact on the key assumptions in this report.

Key internal risks

3.5. The figures set out in this report assume that the 2016/17 budget will not be overspent. Current indications are that in some services there are substantial expenditure pressures, arising either out of higher than anticipated service demand or because planned savings have not yet been delivered. In some cases revenue savings are also delayed due to delays in delivering the capital programme, thus impacting on the speed at which service models can be transformed.

3.6. In theory, if all of these risks crystallised the gross overspend would approach £6m. This is a somewhat higher figure than the council would normally be managing at this point in the year, but not unusual for an organisation of this size and complexity. However, the services in question have options for mitigating these risks, which are being worked up into more detailed proposals.

3.7. More significantly, corporate activities will also be able to offset these risks. The delay in the capital programme, which is driving some of the more concrete risks, will necessarily give rise to offsetting reductions in 2016/17 minimum revenue provision (MRP, the amounts the council must by law set aside to provide for long-term repayment of the elements of the capital programme financed by borrowing).

3.8. Some corporate savings and financing assumptions from 2017/18 may also be brought forward, providing further mitigation against these risks. The council also, prudently, set aside modest contingency budgets to deal with the risks inherent in delivering large and complex change programmes. This will enable any realistically plausible overspend against service budgets in 2016/17 to be contained within the council's overall cash limit.

3.9. However, should service overspends become structural, rather than one-off in 2016/17, the assumptions in this report would need to be revisited. A fuller update will therefore be brought as part of the budgeting process.

3.10. As noted above, the council has already agreed a savings programme for 2017/18 and 2018/19. If any savings in this programme cannot be delivered then the residual budget gap for those years will grow correspondingly. Two items are particularly at risk and worth highlighting.

3.11. Firstly, the council plans to deliver savings of £8m through better procurement over the next two years. Internal governance structures have been established to help deliver this. To date procurement decisions reaching Cabinet have not contributed significantly towards this target, which is as expected given the length of the procurement cycle. However, it will be essential that new procurements coming through in the latter part of 2016/17 (i.e. where the financial impact will mostly be in 2017/18 and beyond) consistently deliver at least 10-15% efficiency gains and commensurate cashable savings, to provide assurance that this target is on track.

3.12. Secondly, the council also plans to generate up to £2.5m p.a. through its civic enterprise agenda. This is a new area of activity, and correspondingly relatively high risk. Again, governance structures are in place to manage these risks, but it will be essential that specific proposals can be worked up in the next three months to demonstrate the true potential of this new area of activity.

3.13. If procurement and civic enterprise savings cannot be delivered to the extent already envisaged in the council's financial plans then further savings will have to be developed to compensate in order to remain within the overall financial envelope. The same is, of course, true for any other savings already built into the financial plans, but the two items highlighted above represent the most significant risks identified at this stage.

4. Strategic financial overview and budget assumptions

4.1. The following section sets out the main assumptions and strategic considerations for the council’s future budgets. It then goes on to consider key income and expenditure pressures, before calculating the necessary savings given the assumptions explained in previous sections.

Current strategic issues

4.2. The vote for Brexit has potentially changed the course of the British economy. It seems to be widely accepted by most serious economic commentators that there will be short-term negative consequences, for example with GDP growth projections being downgraded sharply. However, beyond the immediate short-term there is, perhaps not surprisingly, little consensus about what the longer-term economic consequences of the referendum outcome will be. In the absence of detailed predictions, it is worth quoting the Bank of England’s

Monetary Policy Committee directly from their decision to reduce interest rates:

> *"Following the United Kingdom's vote to leave the European Union, the exchange rate has fallen and the outlook for growth in the short to medium term has weakened markedly. The fall in sterling is likely to push up on CPI inflation in the near term, hastening its return to the 2% target and probably causing it to rise above the target in the latter part of the MPC's forecast period, before the exchange rate effect dissipates thereafter. In the real economy, although the weaker medium-term outlook for activity largely reflects a downward revision to the economy's supply capacity, near-term weakness in demand is likely to open up a margin of spare capacity, including an eventual rise in unemployment. Consistent with this, recent surveys of business activity, confidence and optimism suggest that the United Kingdom is likely to see little growth in GDP in the second half of this year."*

4.3. So far the clear impacts of Brexit are for the value of the pound to decrease against other major currencies, and interest rates on new government borrowing to decrease. These changes have positive and negative implications for Brent. A decrease in the value of the pound is likely to make imports more expensive, and as a result may have a short term upwards impact on inflation. It would also act to make British exports more competitive and so may help employment within Brent and for Brent residents. The fall in the cost of new government borrowing will push down the cost of the council borrowing, directly from the Public Works Loan Board, and indirectly from other sources that are linked in some way to the cost of government bonds. On the other hand, reduced interest rates on government bonds will reduce the notional return on pension fund assets and mean that the council needs to make greater contributions to the pension fund.

4.4. A key area of uncertainty is the medium term impact of Brexit on both the national and local economies. Many commentators have suggested a recession will follow Brexit, but recessions are notoriously difficult to predict, and the indicators are currently far from clear.

4.5. House prices within London may be reduced following Brexit. This might affect some particular markets within London and not others. There is some immediate evidence that high end central London sale prices have cooled as well as the first reduction in rents for some years (which itself is partly driven by increased buy to let supply into the market due to changes in the tax position on second homes). In short, the available data is complex and in places contradictory, and no clear long-term picture has emerged.

4.6. A reduction in house prices is most likely to affect Brent by reducing the number of properties developed, and may cause people to delay moving houses whilst house prices stabilise. This could reduce the expected increase in council tax income. Further, uncertainty about house prices could reduce bids for assets the council is selling for regeneration purposes, such as South Kilburn sites; and may delay regeneration elsewhere in the borough. On the other hand, reduced house prices may present an excellent opportunity for the council to buy more local properties, consistent with its existing temporary accommodation reform plan, and so reduce its temporary accommodation costs, or indeed for some residents to seek to enter the housing market.

4.7. It is also worth noting that political uncertainty may have a more immediate impact on Brent than any wider macro-economic consequences of the referendum outcome. There is a new prime minister, and the significant majority of Cabinet portfolios have also changed. This will inevitably have consequences for local government and hence Brent.

4.8. In some cases this may mean delay. The new Secretary of State for Education, for example, has already delayed aspects of the planned changes to the system for financing schools, presumably to allow for some further review. As this had previously been identified as a potential funding risk for the council any delay is probably helpful in the short-term, but it also makes longer term planning more difficult. We also do not know whether the new Secretary of State for DCLG will seek to amend his predecessor's policies, or have a different approach to business rates reform, to which this report now turns.

4.9. No immediate material changes to the council's financial strategy are proposed at this stage as a result of the issues above, but it will clearly be essential for the council to act flexibly as necessary in response to changing circumstances. Once the autumn statement is released, with the Chancellor's promised "financial reset" then these issues be updated in more detail with attempted quantifications.

4.10. In addition to the changes to local government finance about devolution of business rates, detailed below, there are other substantial planned changes to how local government finance will work after 2020. A key feature is that the council will be responsible for delivering much more of its own income, which will have several key effects.

4.11. Government grants, once set, tend only to be changed in extraordinary circumstances, such as the policy decision taken by the then coalition government shortly after the 2010 general election. The reforms to the local government finance system will mean that a much greater proportion of the council's income comes locally, from council tax, business rates and locally generated charges for services. Income generation, narrowly through charges for services and more strategically, for example by helping to attract businesses into the borough will become a much more important skills for council officers, and the council will need to consider how its approach to performance management and reporting should change to facilitate this.

4.12. Historically, the council has had a degree of protection for the impact of recession, as central government would not automatically cut revenue support grant, and other funding streams in response to a recession. However, by 2020 most of the council's income streams will be sensitive to recession:

- council tax income would be reduced if more people are entitled to council tax support due to unemployment;
- growth in council tax may be reduced if there is a recession and fewer people move to Brent, or fewer developers bring new homes forward;
- business rates are unlikely to grow if there is a recession; and
- other significant elements of income, such as planning fees and building control income, may be reduced if there is a reduction in construction within the borough.

4.13. The nature of these risks differ. Some of them are relatively short term and any budgetary pressures they caused would in principle be resolved by recovery after the recession. Others, however, go the other way. For example, a reduction in house building or business growth will tend to take years to unwind under the new system, if at all. Central government can finance any reductions in their income from taxation by borrowing, but the council cannot fund reductions in income in this way. Instead, this volatility is managed through reserves. The council has an earmarked reserve to cover future funding risks of £5.1m, which is prudent under the existing system. However, by way of context, if the rate of new homes development halved for just two years - modest compared to some previous recessions - then this reserve would be entirely depleted.

4.14. Increased inflation represents a significant risk to the council. As shown in section five, inflation at the Bank of England target of 2% per year would effectively reduce the council's funding in real terms by £15.6m after three years. To some extent inflation is built into the existing financial plans, but if the rate started to rise significantly beyond that assumed then the costs would be significant. As, under existing policy, local tax and other sources of income are at best only partially under the council's control, the council's ability to offset these costs against additional income is limited.
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4.15. It is possible that not all savings will be delivered on schedule, and some savings may prove impossible to deliver. The assumptions below have modest contingencies built in to reduce the risk of overspending as a result of not delivering savings. Budgeting beyond this would risk forcing decisions to withdraw services before financially necessary, but it is equally unrealistic to set a budget for an organisation as large and complex as Brent without some acknowledgement of this risk.

Future Net income

4.16. NDR income is expected to grow by between 3.2% and 3.5% per annum between 2017/18 and 2019/20. This is based on an assumption of 2% inflation, based on the Bank of England's target, and assumed growth in rateable values of 1.2% to 1.5%. NDR top up is assumed to grow by 2% each year between 2017/18 and 2019/20 on an assumption of 2% inflation, in line with the BoE core forecast. However, business rates revaluation in 2017/18 adds significant volatility to this position.

4.17. Revenue Support Grant is expected to be cut by between 21% and 27% per annum in each year between 2017/18 and 2019/20 based on the last settlement from central government. This will leave the 2019/20 figure at less than 44% of the 2016/17 base following which, as the new system is introduced, it will fall rapidly away to nil.

4.18. Council tax base is assumed to grow at 4.4% per year every year from 2017/18 to 2019/20 due to additional households within the borough. This is based on the rolling average growth in the households over the past three years. This assumption will be updated each year for the most recent data, which will help to smooth the financial planning assumptions and reduce the risk of significant budgetary changes being imposed in response to any given year's data.

4.19. Considering smaller specific grants: Education Services grant is £2.8m in 2016/17 and expected to end by 2017/18 based on current indications from the Department for Education. Public Health grant is assumed to be cut by 2.5% per annum from 2017/18 based on indications from the Department of Health. Housing Benefit and Council Tax Administration Grants are assumed to be cut by £0.2m per annum based on recent experience.

4.20. The following table shows the net impact of these changes.

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**
Income				
RSG	56.0	42.7	33.7	24.5
NDR	34.9	36.1	37.2	38.5
NDR top up	48.7	49.7	50.7	51.7
Council Tax	98.3	102.8	107.4	112.3
Specific grants	34.2	30.4	29.4	28.4
Total Income	**272.2**	**261.6**	**258.4**	**255.4**

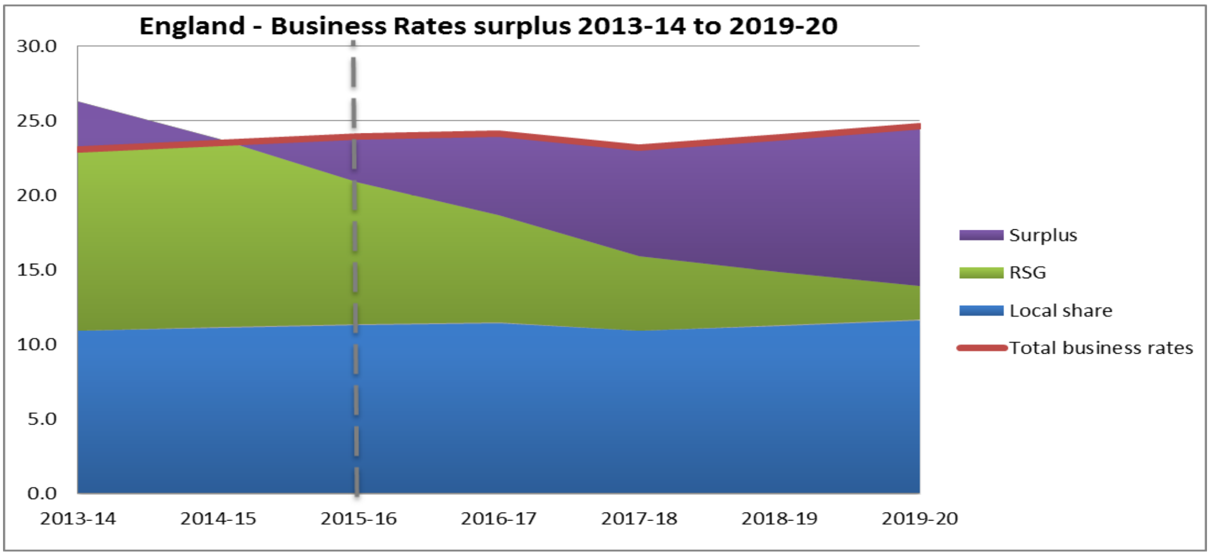
Net income – business rates devolution and revaluation

4.21. Business rates devolution is scheduled to start in 2020/21. At the moment, the specifics are not yet determined. The Department for Communities and Local Government is currently consulting on proposals for business rates devolution. The most important point to understand about this, for the purposes of this report, is that the national tax take from business rates is greater than the current level of grant support to local government, and therefore significantly greater than the planned grant support to local government in 2019/20.

4.22. The consequence, therefore, of devolving all of this tax take to local government, is that government must also devolve responsibility for financing additional services to local government, if it is not to create a significant gap in national spending plans. In theory, although not necessarily in practice, this ought to be cost neutral: local government will have its existing planned level of financing to fund existing services, and new money from business rates to fund new services (or, rather, services currently funded directly from Whitehall) at their current cost.

4.23. This will have consequences for the council in terms of, for example, its workforce planning. Clearly, the services devolved will also be key, and local government will argue strongly for those services that can most effectively be integrated with existing ones to provide more rounded and wholistic services for residents.

4.24. The graph below illustrates, at a national level, this funding position.



4.25. The direction proposed by the previous Secretary of State was that different areas would have different levels of devolution, and different powers devolved to them. It is therefore likely that London government will get a different deal to those proposed elsewhere, such as for example Manchester or Cornwall.

4.26. Central government's current intention is to have a system of business rates retention that works across London with some system of transfers between areas with higher levels of business rates, such as Westminster, and areas with lower business rates, such as Brent. The exact mechanism to do this is not yet specified. The working assumption, which government has operated in previous re-sets of local government financing, is that the initial impact should be "no better no worse". However, this is by no means guaranteed, and even if it turns out to be the case this will only be the "day one" impact: thereafter the balance of future funding risks will have shifted materially.

4.27. The total tax take from business rates in London, not surprisingly, is a significant proportion of the national take, nearly 30% in 2016/17. This is substantially greater than any other part of the country. It remains to be seen whether the redistribution system will be national or regional, but if London is to retain 100% of business rates in 2020/21, it follows that London government will be directly responsible for the financing of more elements of spending than other parts of the country.

4.28. This too make forward financial planning more difficult. If London local authorities receive more funding from business rates to finance more service activities then, as set out above, the "day one" impact of this may be cost neutral, but the future financing risks will transfer to the council. Other forward planning may also be affected. For example, whilst the council will have less money to finance existing services it may receive additional money to finance new services, so it would in principle be possible for the overall workforce to grow over this period.

4.29. Central government is currently consulting on what elements of spending will be devolved, with a long list of possible areas for devolution. The consultation also covers a number of other technical features. Most of the responses to this can be most effectively addressed through the LGA and London Councils, as their evidence carries more weight in central government than that provided by any single local authority. However, the chief finance officer will, in consultation with the deputy leader, provide any further response that may be required.

4.30. The Department for Communities and Local Government is proposing to pilot devolving additional business rates to London from 2017. Currently, the only confirmed element of additional devolution is the Greater London Authority Transport Grant. It is currently unclear what any changes will mean for Brent in 2017/18 and an update will be brought as the position becomes clearer.

4.31. Further, there are clearly tensions within any possible policy on business rates devolution. A key example is the tension between rewarding councils for growing their local economy, and protecting councils that have less opportunities to do so, or considering how any safety net system might operate in a recessionary environment. . Within London, there is a further complexity in that business rates are highly focused within a small number of boroughs, such as Westminster, making the issues of redistribution much more pointed. .A revaluation of business rates rateable values is scheduled for 2017/18. This is likely to have a significant impact on business rates income in future years, but the effect of this revaluation is not yet known.

Expenditure pressures

4.32. Every year the council makes provisions for inflation on staffing costs and for contracts. Not all contracts increase in cost every year, and some increase by more than this. It is currently proposed to allow £1.1m for payroll inflation, at 1%, which is a known figure, and between 1% and 2% for other inflation (£2.3m to £4.6m). This report is predicated on the lower figure, but this may need to be adjusted once the September inflation data is published. Between 2015 and 2020, the council is expected to see significant increases in its population. The overall rate of increase is expected to be 5% over this period, with particularly sharp rises in the under 18s (6.6%), and over 85s (24%). These numbers in these two groups are key determinants of the level of spending on children's social care and adult social care respectively. The council is expected to have to spend more on children's social care and adult social care by 2019/20, further squeezing other services.

4.33. There are a number of other pressures on unavoidable costs that are currently managed centrally, such as pensions, increasing levy costs, providing a contingency against savings being delayed or savings plans not being fully deliverable, and funding growth in Freedom passes. Full estimates will be brought as part of the detailed draft budget report.

Calculation of savings targets to 2019/20

4.34. The additional savings required are calculated as Total Expenditure less Total income. Total Expenditure is the net 2016/17 budget, plus the expenditure in 2016/17 funded by specific grants, plus council wide inflation, plus the specific cost pressures less the savings already planned.

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**
Expenditure				
Net 2016/17 Budget	240.5	240.5	240.5	240.5
2016/17 Expenditure funded by specific grants	31.7	31.7	31.7	31.7
Cumulative council wide inflation		3.4	6.8	10.2
Cumulative specific cost pressures		10.8	20.3	28.7
Cumulative planned savings		(13.8)	(24.7)	(24.7)
Total Expenditure	**272.2**	**272.6**	**274.6**	**286.4**
Less Total Income	**(272.2)**	**(261.6)**	**(258.4)**	**255.4**
Cumulative additional savings required		**11.0**	**16.2**	**31.0**

5. Income Policy

Council tax

5.1. The above figures do not assume that the council raises the council tax charge. The council is permitted to increase council tax by up to 3.99% per year. Of this, 1.99% is for general inflation, and 2% is for adult social care.

5.2. The council is facing significant demographic pressures in adult social care, for example, the number of people aged over 85 increases at 24% between 2015 and 2020. A 2% increase in council tax per year would not cover all the additional costs of providing for the growing population requiring adult social care, so additional savings would need to be found even with a 2% rise for adult social care.

5.3. Self-evidently, larger increases in council tax reduce the savings that have to be found from service budgets. The table below illustrates the cumulative impact of increases at 3.99% per year.

	2017/18	**2018/19**	**2019/20**
	£m	**£m**	**£m**
Cumulative savings required	**11.0**	**16.2**	**31.0**
Cumulative additional income with 3.99% a year council tax increase	(4.1)	(8.8)	(14.0)
Cumulative savings required with 3.99% council tax increase	**6.9**	**7.4**	**17.0**

5.4. This clearly illustrates the significance of the decision on council tax. The savings required from service budgets in the next two years can be more than halved if council tax is increased each year. Formal consultation on this, and other budget options, will commence in October, but it serves to emphasise the significance of the decision that Members will have to make on council tax..

5.5. The cumulative impact of an annual council tax rise makes a large difference by 2019/20. An extra £14m of savings will be necessary in 2019/20 if council tax is frozen, compared to the position with increases of 4% each year. The decision on this will ultimately rest with the full Council budget setting meeting, following consultation, and the purposes of highlighting it here at this stage is to emphasise one of the key sensitivities in the overall financial model.

6. Four year settlement option

6.1. As part of last year's local government finance settlement councils were given the option of fixing their future RSG allocations until 2020. In principle this could address one key concern that the local government sector has highlighted for a number of years: the difficulty of long-term financial planning when key items of income are only determined annually.

6.2. In order to take advantage of this the council would need to make a decision on the four year settlement option by 14 October 2016 and write formally to DCLG on this. As part of this it would need to present an efficiency plan; central government have indicated that this should not be an onerous document, and can be based on the council's medium term financial plan.

6.3. This is not a straightforward decision: it is a decision about risk management, and whether accepting or declining the settlement offers the better path for the council to manage its risks. DCLG have set out considerable emphasis that a four year fix is exactly that: it sets RSG until 2020 regardless of what may happen with the economy or other government decisions. Of course, legally, government cannot bind future Parliaments, and so it would technically be possible for the DCLG to reopen the settlement even for those councils that chose to fix their RSG.

6.4. Accepting the four year settlement would give the council more certainty of future funding. This makes financial planning and communication much simpler, and significantly reduces the potential volatility in the system. This creates obvious arguments for accepting the fix, as it will aid the council's budgeting process and hence the quality of decision making. It would also clearly shift the focus onto those sources of funding that the council can influence and control.

6.5. As set out, government is not technically bound by councils' decisions to accept a fix. However, on a practical level, even if they were minded to reopen the local government settlement, it would clearly be more difficult to do so for those councils that had accepted their offer. Accepting the fix therefore provides a degree of assurance against the settlement position worsening. This is not unlimited - if DCLG subsequently decided to reduce the overall settlement then its ability to spread this amongst authorities that have *not* accepted a fix is severely constrained if most councils *do* accept a fixed settlement.

6.6. After last year's autumn statement central government announced a need to find, by 2019/20, a further £3.5 billion pounds of savings from across central government spend, while maintaining the protections set out at the Spending Review and Autumn Statement. It is unknown if the new central government cabinet will continue with this approach. However, reducing funding for local authorities has been a favoured method for central government to reduce government expenditure under the previous coalition government and the present parliament.

6.7. On the downside if central government subsequently decides to increase settlement funding to local authorities then council would not benefit if it had chosen to fix its future RSG to 2020. Central government has suggested that its expenditure and fiscal policy might be “reset” following Brexit. This could involve relatively technical changes, such as removing the unallocated £3.5 billion saving mentioned in the previous paragraph, which would not affect the published settlement figures for local authorities. It could involve some extra money for some or all local authorities, or new money for particularly priorities of central government to be delivered by local government.

6.8. Room for central government to significantly improve local government funding is limited both by the current deficit in central government funding, and other calls on funding that may take a higher priority for central government, such as the NHS or tax cuts. Ultimately, the decision lies in whether it is considered more likely that future local government settlement funding will be increased than decreased, and whether, if it is increased, this funding is likely to be directed towards London authorities with characteristics such as Brent.

6.9. Informal soundings with other councils suggest that most London authorities are minded to accept the four year settlement. The picture elsewhere across the country is less clear, but on present information officers expect most authorities to accept it.

6.10. However, following the referendum and with the proposed "financial reset" the position is somewhat fluid, and, although the suggested intention is clear, it is proposed to delegate this decision, as set out, in order that the council can react to any changes over the next four weeks. As set out in this report, there are a number of significant volatilities in the overall system, and whilst this creates a logical argument for fixing RSG at least, to reduce overall volatility, it also suggests deferring the formal decision slightly might enable the council to react better to changing events: hence the proposed delegation.

6.11. The next Cabinet meeting, on 24 October, is too late for these purposes, as it is after the DCLG deadline.

7. The investment strategy – procurement of borrowing advice

7.1. The council has agreed an investment strategy. Over time this is intended to shift the balance of the council's priorities towards longer-term investments, rather than a reactive annual revenue budget setting process.

7.2. One short-term headline policy that has already been agreed is to invest £130m in buying and developing housing. This will enable the council to improve its service offer and also reduce revenue costs, for example, by reducing the number of placements into privately rented temporary accommodation.

7.3. This strategy is underway, financed to date on a temporary basis through the council's cash backed reserves. This does not deplete the actual reserves, merely the cash backed element of them, which ensures that the council minimises its external interest costs by not borrowing before it needs to.

7.4. The traditional way for councils to borrow money for routine capital investment is to borrow money from the Public Works Loan Board (PWLB). However, given the scale of funds the council is planning to borrow there are potentially options that will come in at lower cost than the PWLB, such as issuing bonds that would be available for pension funds to buy, loans from the European Investment Bank (which may still be available after Brexit), or the Municipal Bonds Agency. This list is not exhaustive.

7.5. Evaluating these options is complex, and requires specialist skills. In particular the skills to evaluate not just the headline rate, but also the price the costs of any differences in risk assumed by the council under different circumstances. In addition with any variable rate product, it will be necessary to consider a variety of scenarios to understand under what scenarios the council would benefit from a particular product, and under what scenarios it would lose out from a particular product.

7.6. Further, it could be that the best approach for the council is to offset the risks and benefits of different products available to council, and this approach could be more advantageous than choosing a single, simple product. Alternatively, a single simple product may be more advantageous than more products and the complexity involved.

7.7. The council has the skills and expertise to client advisers for such activity, but it would be unwise to enter into such significant long term commitments without taking proper professional advice. The cost of such advice is not yet known, but is often expressed as a function of the total borrowing requirement. As stated above, this is already known to exceed £100m and, depending on what else the council wants to build into its capital plans, could potentially be much higher than this.

7.8. Owing to the highly technical nature of the advice it is therefore proposed to delegate to the chief finance officer, in consultation with the deputy leader, authority to procure and appoint the necessary advisers. Any decision on the structure of the actual borrowing will of course come back to cabinet for approval.

8. Financial implications

8.1. This report is all about the overall financial position, and includes a proposal to delegate authority to decide whether or not to accept the DCLG offer of a four year fix to the RSG settlement to the chief executive, in consultation with the leader. Although the suggestion is that this should be agreed it is proposed to be delegated at this stage for the reasons set out in the report.

8.2. Otherwise, the report is about the overall financial position rather than specific decisions. The cost of the procurement of the specialist treasury advisers will be included within the overall financing of the investment strategy.

9. Legal Implications

9.1 There is a significant delegation of responsibility within this report to the CFO which is of course appropriate in his capacity as the Council's S151 Officer and in line with the duties of the Chief Finance Officer ("CFO") as set out in Article 13.7 in Part 2 of the Constitution and areas of responsibility of the CFO as set out in paragraph 2.6(a) of Part 4 of the Council's Constitution.

9.2. It is taken as given that the CFO will be mindful of his statutory duty to obtain best value in terms of procuring advice on investments and will do so in line with the Council's corporate procurement strategy and in accordance with Contract Standing Orders.

10. Staffing and Diversity Implications

10.1. This report sets out the overall financial framework, but does not propose any items for decision at this stage that would have staffing or diversity implications.

11. Related Documents

Bank of England - Monetary policy summary - 04 August 2016
http://www.bankofengland.co.uk/publications/Pages/news/2016/008.aspx

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