# Strategic Financial Overview

## Resources and Public Realm Scrutiny

**11 July 2017**

# Recent developments

- General election result has not resulted in a majority government
- Inherent political uncertainty which we need to manage within
- Unclear how local government finance will be impacted as a result
  - Local Government Finance Bill (business rates devolution)
  - Did not complete Parliamentary stages prior to the election
  - Not included in Queen's Speech post election
- Therefore, this presentation sets out:
  - Background to local authority finances for context
  - Summary of Brent's overall financial position
  - Key risks and issues for consideration

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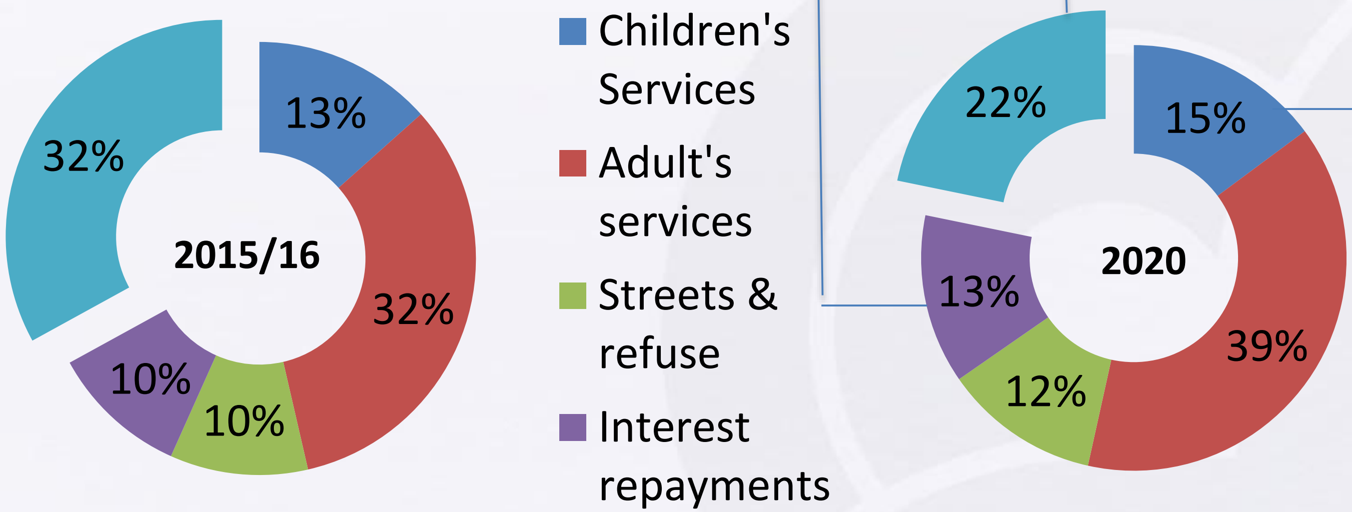
# Strategic impact on our budget

All other services will need to reduce by a further 10%

We continue to meet our statutory obligations




Demand for Adult's & Children's services increase

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# The main sources of local government finance

- **Revenue support grant**
  - Based on central government assessment of relative need
  - In 2014/15 provided 30% of funding
  - Will be 10% by 2018/19 and falling to nil after 2020
- **Council tax**
  - Can increase by 12% over 3 years 2017/18 to 2019/20
  - 1% = approx. £1m, half of any increase ring-fenced to social care
  - Brent agreed policy is 4% p.a. over this period
- **Business rates (NDR)**
  - NDR growth in London shared 30/37/33 (Brent, GLA, Treasury)
  - Top ups and tariffs to equalise funding (the 'Westminster' effect)
  - Rate and exemptions <u>set centrally</u>, can be <u>influenced locally</u>
- **Fees and charges**
- **Specific government grants**

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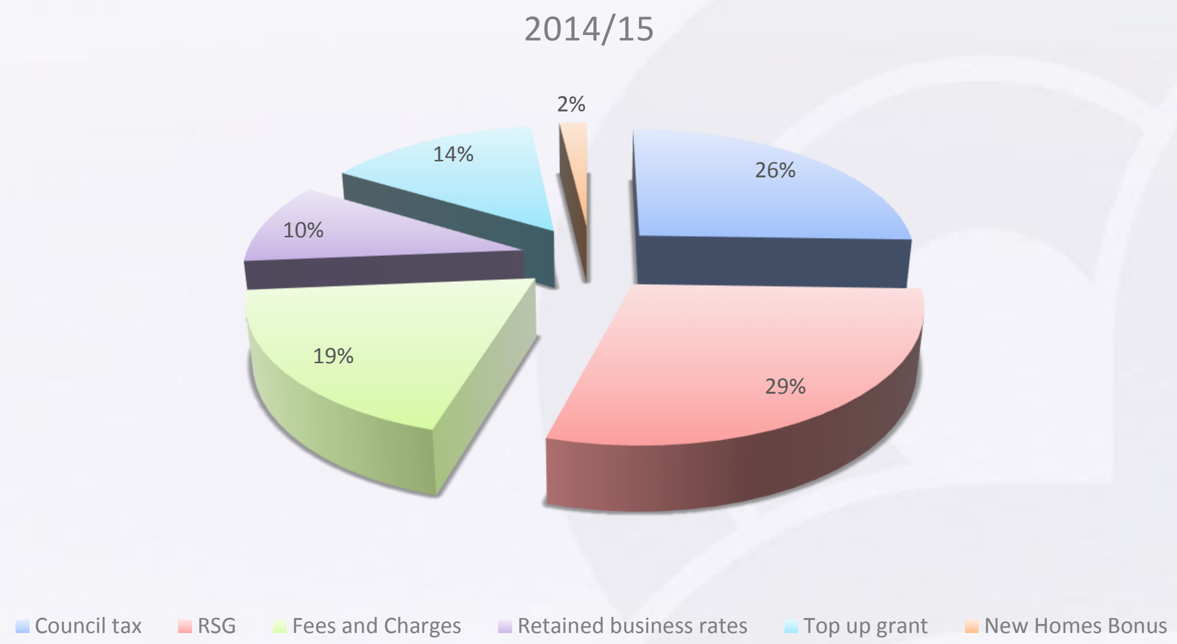
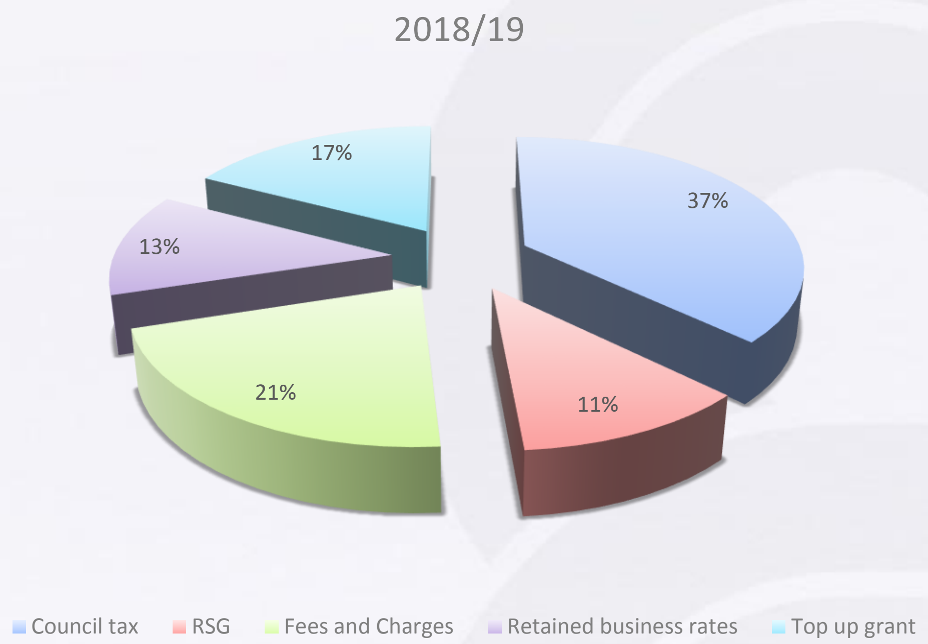
# In 2014/15 RSG still provided nearly 30% of our funding; more than council tax (26%) and more than business rates (24%)



# By 2018/19 RSG will barely provide 10% of our funding, less than half the amount we raise through fees and charges and a fraction of the amounts from local taxes

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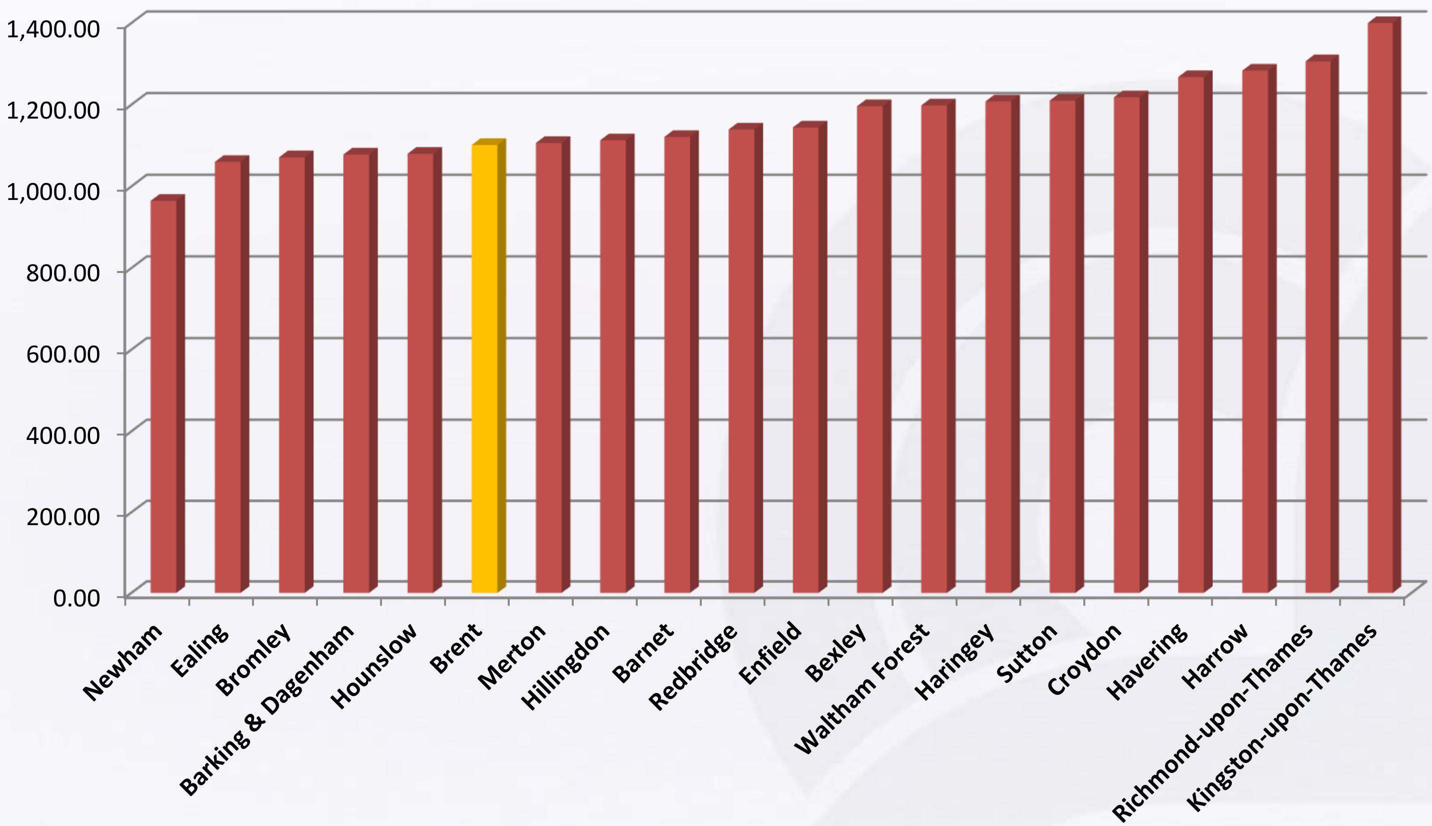
# Relative council tax levels in outer London 2016/17

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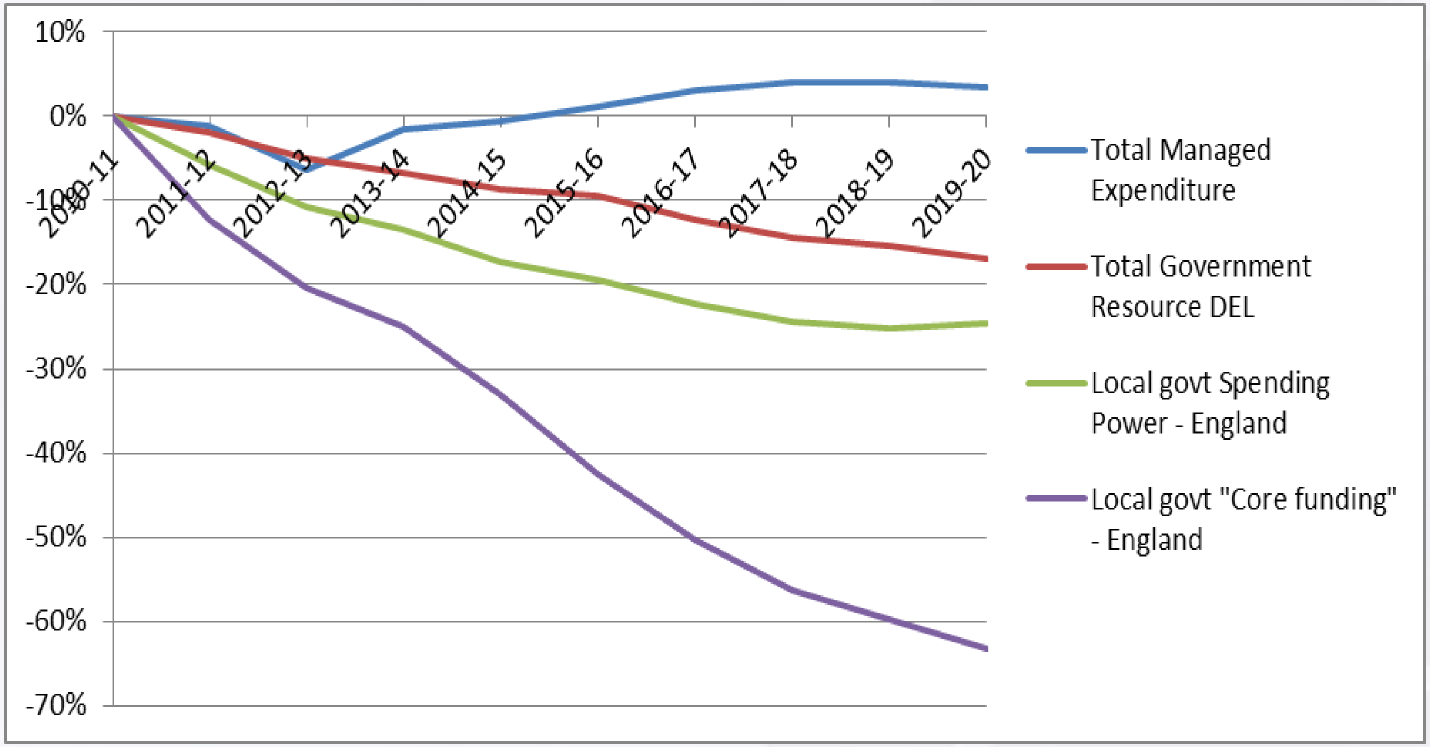
# The gap between funding reductions for local government and the rest of the UK public sector continues to widen, with no obvious sign that this disparity is likely to change substantially

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# Legal obligations in budgeting

- **Must hold budget and council tax setting meeting February 2018**
  - Must set balanced budget and council tax for 2018/19
  - Can set ‘business plans’ for 2019/20
  - Can’t legally bind Council in February 2019
  - But can choose, for most practical purposes to set budget and council tax for 2019/20
- **Must hold budget and council tax setting meeting February 2019**
  - This can consider new savings and council tax proposals; or
  - This can formally adopt ‘business plans’ from February 2018

# Current financial position

- Balanced budget set for 2017/18
  - ➢ Usual set of risks and issues to be managed through monitoring process
- Proposals agreed in February 2017 to balance budget for 2018/19
  - – Requires formal adoption by Council in February 2018, including
    - Council tax increase of 4%
    - Procurement savings of £4.5m
    - Additional income through civic enterprise £1.25m
    - Full listing on council website
    - Usual technical caveats apply (e.g. no reductions to previously announced government funding, no sharp increase in inflation etc)
- **No substantial new budget process required to set lawful 2018/19 budget**
  - ➢ Most councils are still trying to identify savings for 2018/19
- Gap of c£13m remains to be bridged for 2019/20

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# ……budget gap (estimate @ February 2017)

Best estimate of the gap in February 2017 was £12.7m. This estimate will be revised and updated over the summer to take account of the factors set out below.

- **Demography.** The extent to which changing demographic trends will vary from those previously assumed, and so increase or decrease the assumed cost of providing services.
- **Macro-economic conditions.** The effect of changes to forecast rates on inflation, interest rates and economic growth, as a longitudinal proxy measure of earnings and employment and hence a determinant of deprivation and need for services.
- **Local (and local government) specific factors.** The cost of providing pensions will feature significantly, which in turn will be affected by discount rates, investment performance and longer-term actuarial assumptions. Furthermore, the Trade Union side has submitted a 5% pay claim for 2018/19, substantially above the 1% awarded in each of the last two years – for Brent each 1% costs around £1m.
- **National policy.** On the face of it additional funding for adult social care and homelessness prevention has been allocated, but the lack of longer-term commitments to this by government make planning at the local level difficult, and it is as yet too early to forecast accurately how service interventions and innovations funded from these will impact on the council's cost base.
- **Local policy.** Local choices to prioritise some services or policies over others is at the core of local government democracy and accountability, and the impact of possible policy initiatives will need to be factored into the planning process

# Developments in local authority finance

- Comprehensive update to Cabinet 24 July 2017
- Or, comprehensive so far as possible given political uncertainty
  - **Business rates devolution (of which more later)**
  - **School funding and national funding formula**
  - **Adult social care and NHS integration**
    - Some new money, but time-limited rather than ongoing support
    - Can address immediate pressure and pump-prime one-off initiatives
  - **Homelessness reduction Act / Flexible homelessness support grant**
    - Some new money, but to meet new duties in the Act
    - Could lead to future cost avoidance if homelessness successfully reduced

# Business rates devolution

# Previous timetable

- **Business rates devolution by 1 April 2019**
- **Brent's Scrutiny task group produced report in response**
- **What will and won't be devolved?**
  - Power to decrease taxes - yes
  - Power to increase taxes - no
  - Retaining business rates receipts – no
    - Retain additional growth above a baseline
    - Top ups and tariffs still apply as a partial equalisation measure
- **Could still pilot London "pool" from 1 April 2018**
  - Could generate one-off additional receipt for Brent of c£7m in 2018/19

# Technical reminder of how business rates devolution would work

- *“From 2013/14 onwards, local government has collectively retained 50% of the rates (in London this was split 30:20 between the boroughs and the Greater London Authority (GLA); the other 50% funds government grants to local government such as (RSG)”*
- *“However, INDIVIDUAL councils do NOT keep 50% of all the rates they collect. Instead, the government compares the rate income it expects each council to collect (the “business rates baseline”) with the level of funding it assesses each council needs (the “funding baseline”). Where a council’s rates baseline exceeds its funding needs, it pays a **“tariff”** into a national pool; where a council’s rates are less than its assessed needs, it receives a **“top-up”**.*
- *“When a council’s business rate tax base grows by more than inflation, it retains 50% of that growth to spend locally; if it is a tariff council, it also pays a **“levy”** on that growth into the national pot.”*
- *“If a council’s tax base falls, it bears the loss. However, the **“safety net”** – funded by the levy nationally – guarantees that each council will receive at least 92.5% of its baseline funding.”*

# The Local Government Finance Bill that wasn't

- Parliamentary process was largely but not entirely complete prior to the General Election, so the Bill fell and wasn't put back into the Queen's speech afterwards
- DCLG have yet to provide a clear steer on how the policy will proceed
- Some commentators suggest much of it could be done by Executive Order…provided the political will (and perhaps consensus?) was there
- Mostly, we need to watch how the policy develops nationally and respond accordingly
- There is an opportunity for London to form a pilot "pool"

# Business rates pooling

- **DCLG has already allowed 100% retention for "pools" on a pilot basis**
  - **Therefore, this can be done under existing legislation**
  - **We believe DCLG are still supportive of pilots, and would like London to do so**
- **If London pooled business rates in 2018/19 then there might be up to £234m extra to distribute**
  - Assumes growth in 2018/19 is at rate of most recent forecast for 2017/18
  - Actual growth may be different or lower
  - Could be negative, but "no detriment" guarantee from DCLG, so can't be worse off by joining a pilot pool
- **This is, on average, c£7m for each of the 33 boroughs on a one-off basis**
- **It is over and above 50% scheme, after protecting each authority**
- **Takes no new responsibility for more services**
- **Requires all 33 boroughs to agree unanimously how to share the proceeds**

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# What happens to the surplus?

- Whatever the boroughs collectively agree
- For example:
  - *In proportion to growth (Brent's share would be £6.2m)*
  - *In equal shares (Brent's share would be £7.1m)*
  - *In relation to other contributing factors like housing (?)*
  - *To finance mutually beneficial infrastructure investment (?)*
- Timetable
  - Discussion at London Councils Leaders' committee in July
  - Consultation process commences afterwards
  - In principle agreement from boroughs in around October
  - Final sign off as part of budget setting

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