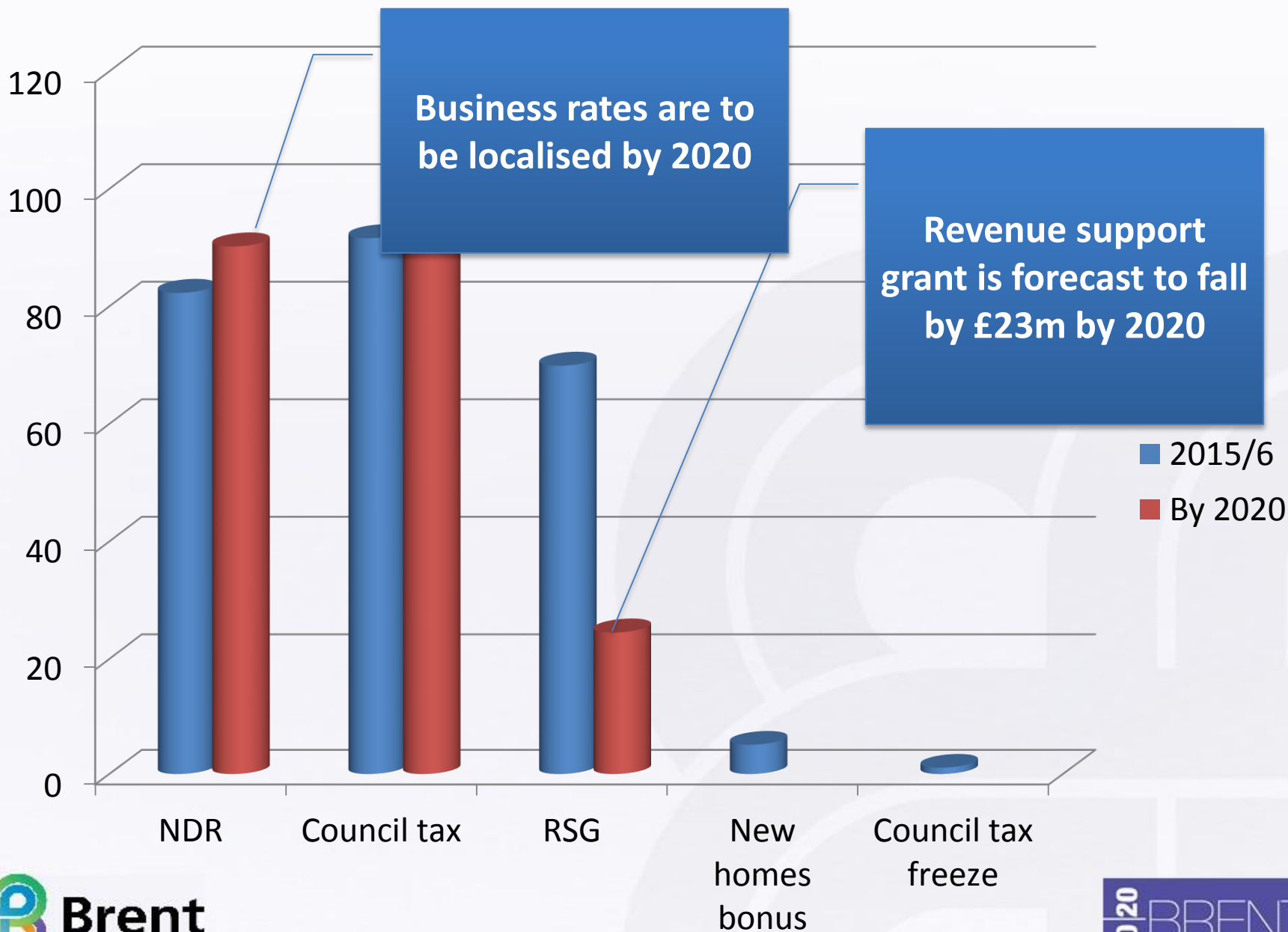


# Strategic Financial Overview

Resources and Public Realm  
Scrutiny

**12 July 2016**

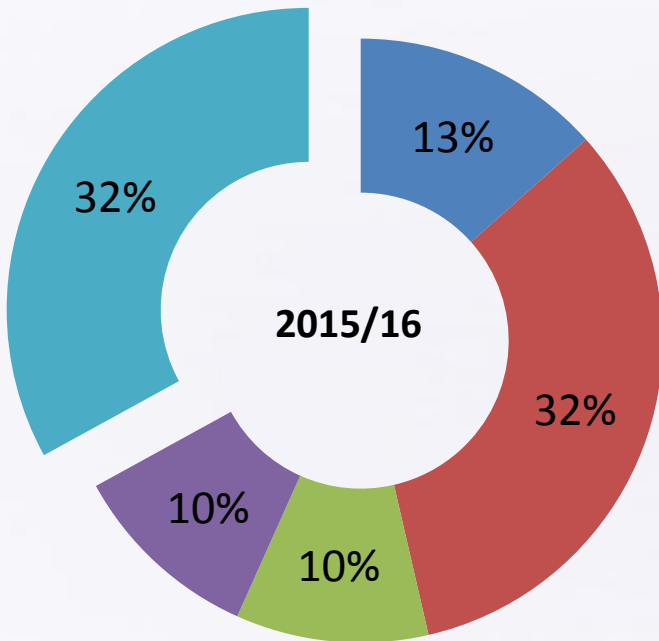
# Where the money comes from



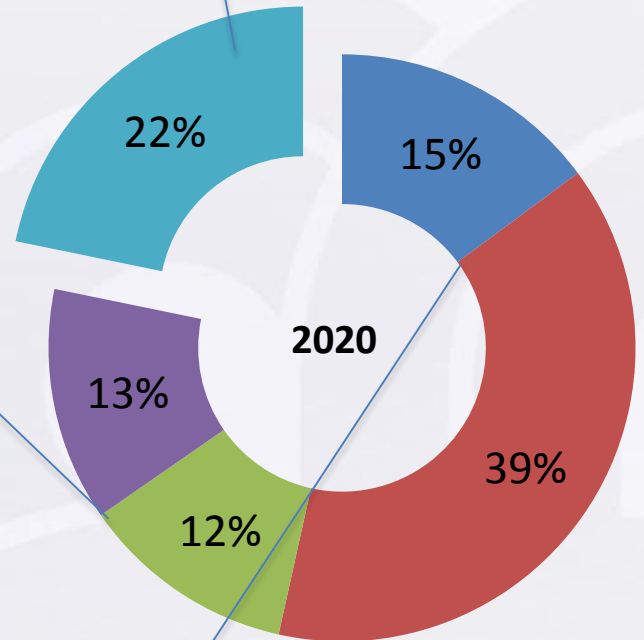
# Impact on our budget

We continue to meet our statutory obligations

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



- Children's Services
- Adult's services
- Streets & refuse
- Interest repayments
- All other services



Demand for Adult's & Children's services increase

# How does the local government finance system work?

Currently, four (principal) sources of local government (revenue) finance, plus two others

- **Revenue support grant**

- Based on central government assessment of need
- In 2014/15 provided 30% of funding
- Will be 10% by 2018/19 and falling to nil after 2020

- **Council tax**

- Locally determined with significant restrictions
- Six year freeze strongly encouraged by central government
- Now can increase by 4% each year
  - Of this, half ring-fenced for adult social care
  - For planning purposes, 1% raises approximately £1m
  - Current technical financial model doesn't assume any increases

Currently, four (principal) sources of local government (revenue) finance, plus two others

- **Business rates**

- Retain 30% of business rates paid in Brent
- 20% paid to GLA and 50% paid to Treasury
- Rate (multiplier) and exemptions set centrally
- Amount raised capable of being influenced locally

- **Top up grant**

- Required to make any system fair (Westminster effect)
- Amount set on transition to new system (2011/12)
- Then inflated annually at CPI

Currently, four (principal) sources of local government (revenue) finance, plus two others

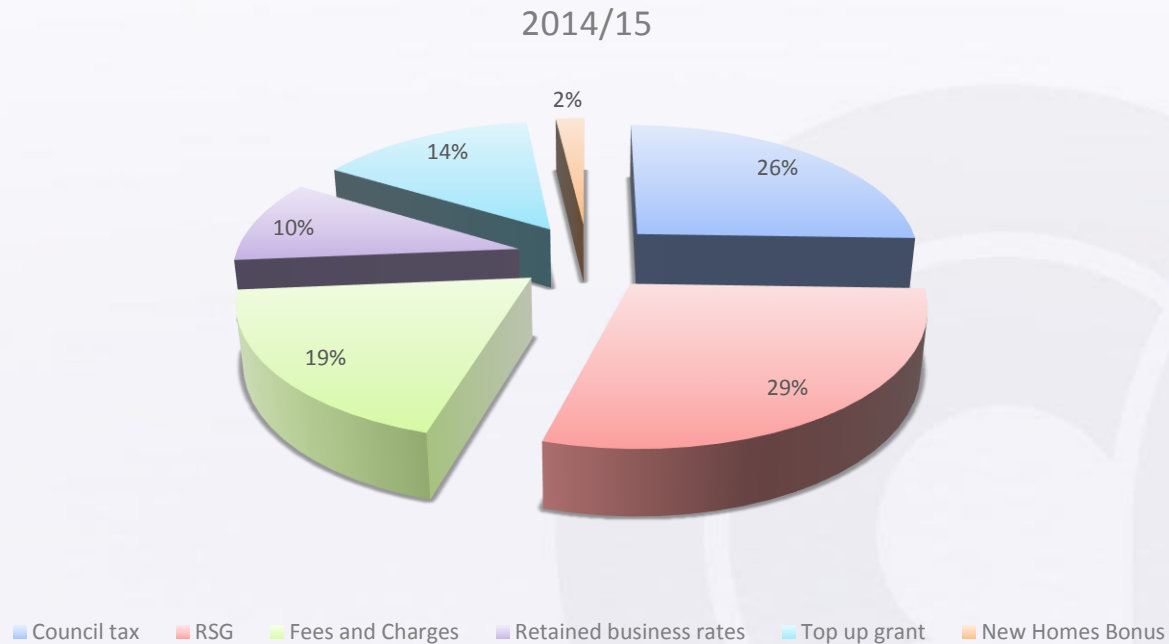
- **Fees and charges**

- Discretion varies significantly
  - E.g. Parking, PCNs set regionally, P&D set locally
- Usually some restrictions on ability to create surpluses
- Can be for services to residents or businesses
- Traditional (swimming pool); creative (filming)
- Can link to policy goals; civic enterprise in more detail

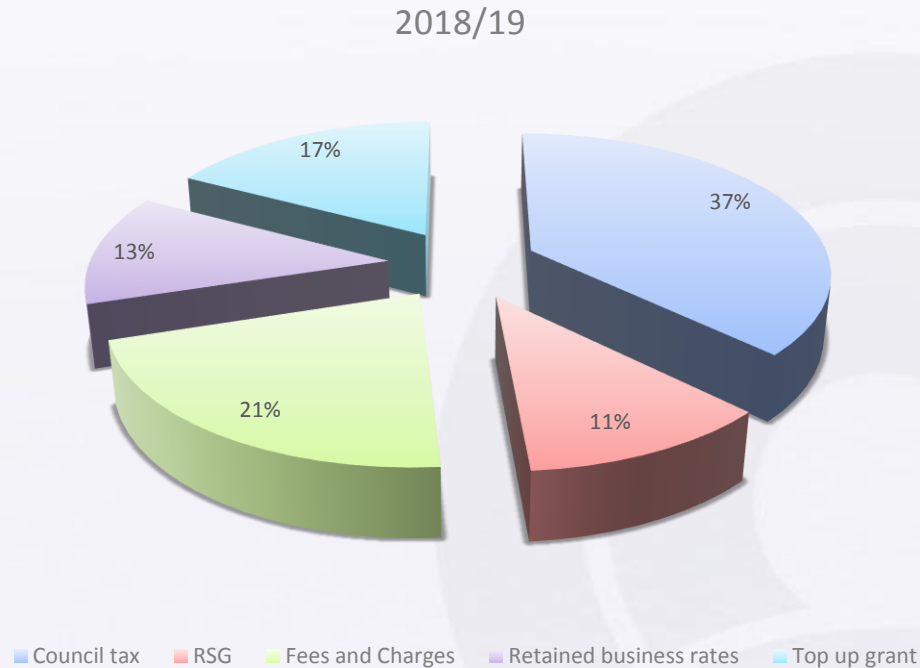
- **Specific grants**

- Government makes specific grants to achieve policy goals
- Nice to have, but can't choose what to spend on

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

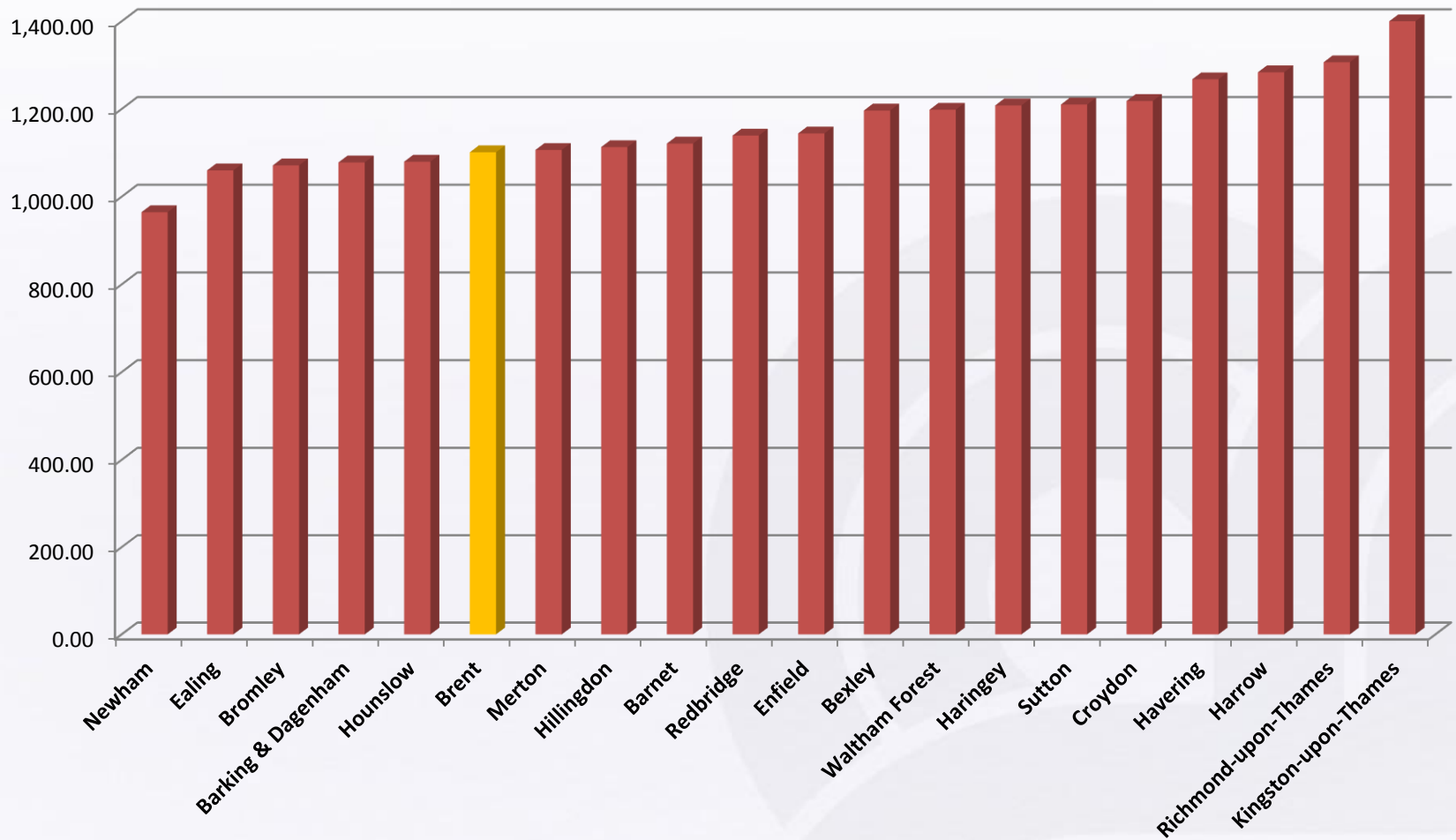


# Maximum scope for local taxes

- **Council tax**

- Government policy changed last year
- Previously (partially) incentivised to freeze council tax through “freeze grant”
- Can now increase by 4% each year
  - Half of this is reserved for social care
  - Worth approximately £1m for 1%, so £4m (not in financial model)
  - Council tax base also growing >4% per year (£3m, in financial model)
- Cumulative impact key
  - Decision in 2017/18 is, on the face of it, up to £4m
  - Properly viewed is £4m p.a. (so, say, £12m to end of Parliament in 2019/20)

## Relative council tax levels in outer London 2016/17



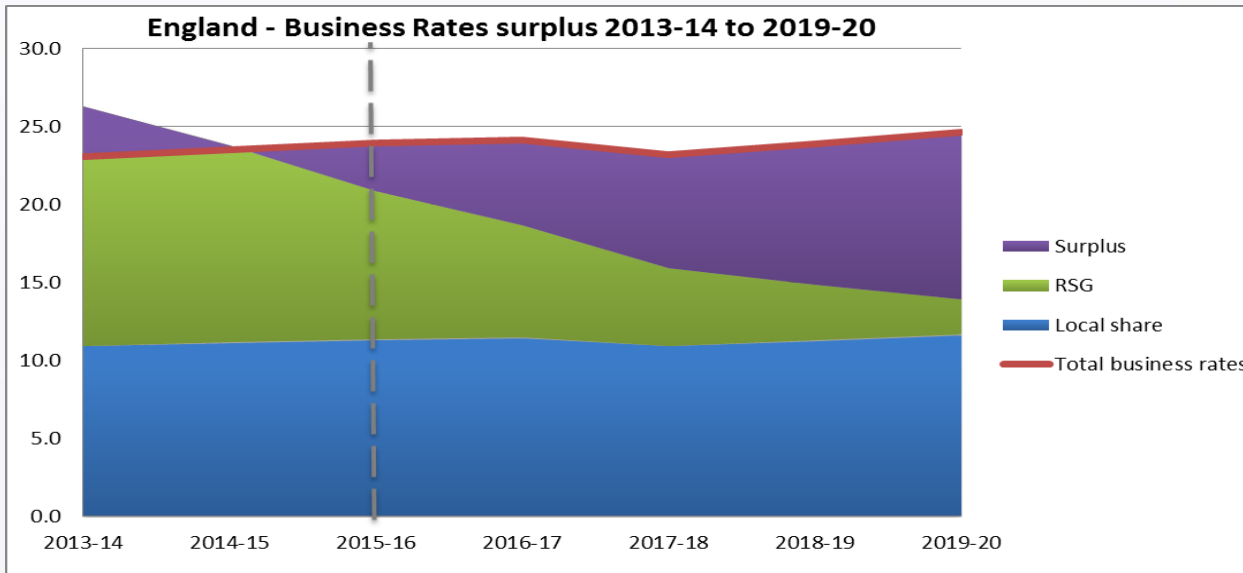
# Maximum scope for local taxes

- **Business rates**
- **Currently split 20/30/50**
  - Can't increase the rate of the tax
  - To increase income by £1m need about 3% growth in rateable value
  - Business rates devolution changes (some of) this
  - Pilot in London 2017/18, nationally from 2020
- **Revaluation in 2017**
  - London: estimated increase in income £750m (base £6.6bn)
  - Significant variation by borough, hence volatility
  - Appeals also volatile (currently c20% under appeal)

# The new world : business rates devolution...or is it?

- **Business rates aren't being devolved**
  - Government isn't proposing local tax setting power
  - At best might get some limited control of discounts and exemptions
- **Business rates aren't being retained...locally**
  - Nor would you want them to be (the Westminster effect)
  - Any system would require some form of redistribution
  - But local government as a sector will retain all business rates
- **Nationally business rates collected have exceeded central funding for local government services since 2014/15**
  - Devolution of business rates requires local government to assume financial responsibility for more services
  - Devolution of business rates is only part of the story...needs review and reset of entire local government finance system

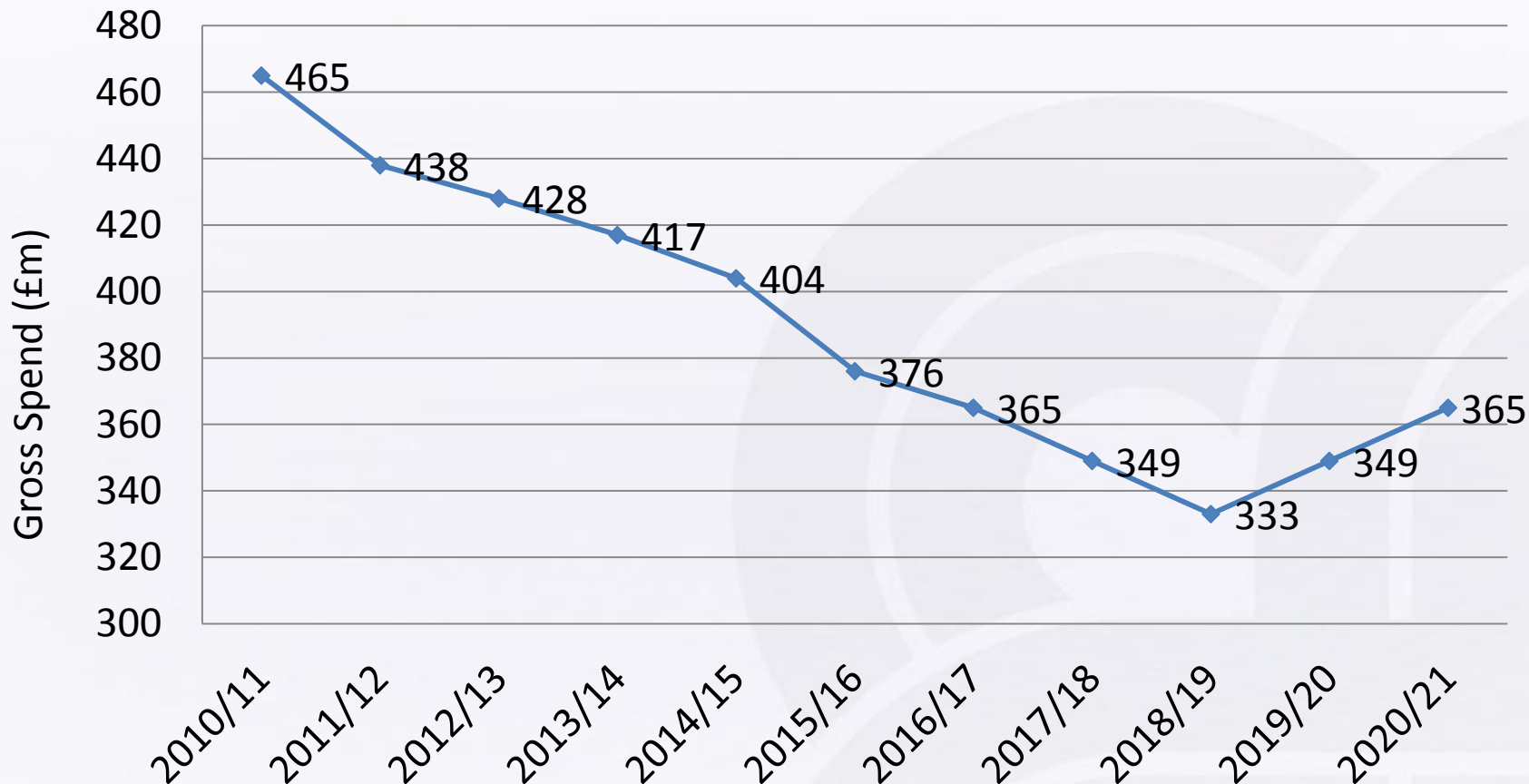
# The size of the post-Budget pot: £10.7bn “surplus” by 2020



## ENGLAND - Business Rates and SFA

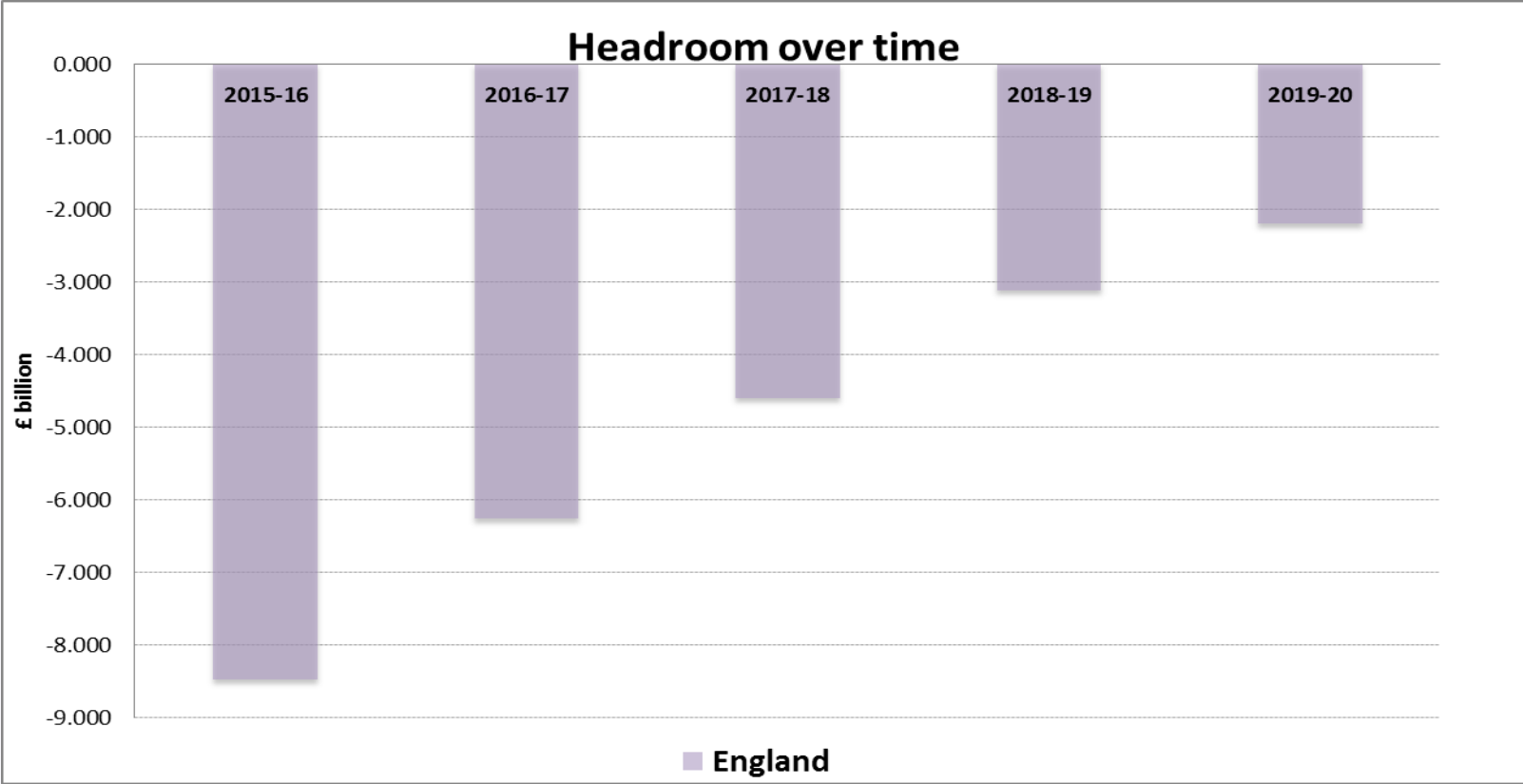
	Outturn			Estimated			
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Local share	10.9	11.1	11.3	11.4	10.9	11.3	11.6
Central share	10.9	11.1	11.3	11.4	10.9	11.2	11.6
Central list	1.3	1.3	1.3	1.3	1.3	1.4	1.4
<b>Total business rates</b>	<b>23.1</b>	<b>23.5</b>	<b>23.9</b>	<b>24.1</b>	<b>23.2</b>	<b>23.9</b>	<b>24.6</b>
RSG	15.4	12.7	9.5	7.2	5.0	3.6	2.3
<b>SFA</b>	<b>26.3</b>	<b>23.8</b>	<b>20.8</b>	<b>18.6</b>	<b>15.9</b>	<b>14.8</b>	<b>13.9</b>
<i>Surplus</i>	<i>-3.2</i>	<i>-0.3</i>	<i>3.1</i>	<i>5.5</i>	<i>7.3</i>	<i>9.1</i>	<i>10.7</i>

Business rates devolution should therefore increase our gross expenditure...more money to deliver new responsibilities, not more money for existing services (figures after 2018/19 illustrative only)



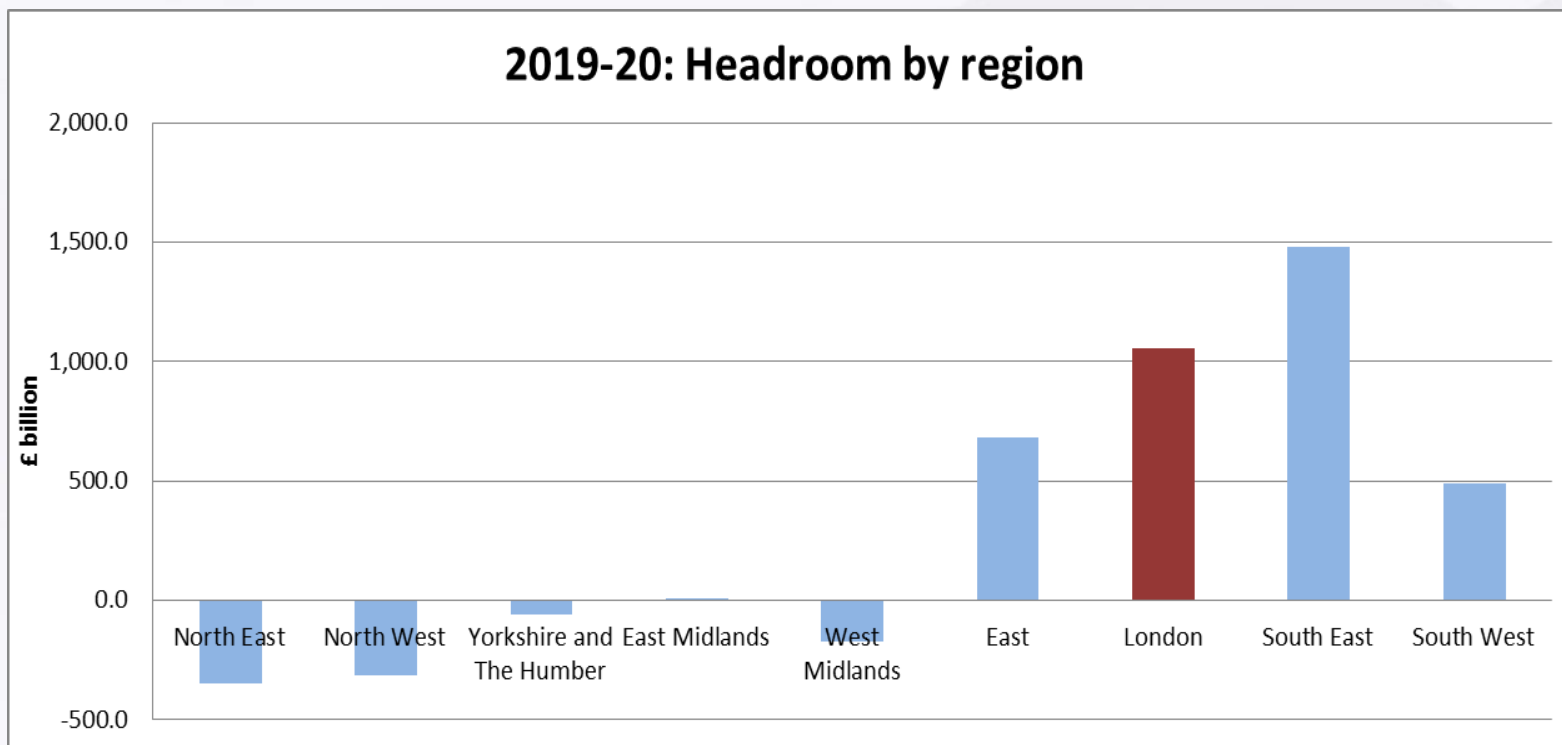
# BUT... is the surplus already over-committed?

For England: Rolling in RSG, NHB, BCF, Attendance Allowance, Public Health, TfL, HB Admin leaves £2.2bn **DEFICIT**



# Excluding Attendance Allowance...

- London “headroom” £1bn (not adjusting for 2017 revaluation)
- National “headroom” of £2.8bn; BUT...
- Clear North-South divide
- Both GM and Liverpool Combined Authorities in deficit



# Current financial targets

# Budget position (February 2016)

	2016/17	2017/18	2018/19
	£m	£m	£m
<b>Budget savings already agreed</b>	23.4	13.8	10.9
<b>Further savings to find</b>	0.0	8.7	7.7
<b>Maximum impact of council tax</b>	0.0	(4.0)	(4.0)
<b>Minimum savings to find</b>	0.0	4.7	3.7

# Financial risks in 2016/17

Department	Net budget	Risks	Mitigation plans	Residual risk
	£m	£m	£m	£m
CYP	40.2	1.9	0.0	1.9
CwB	121.8	2.1	1.7	0.4
R&E	29.5	1.5	1.0	0.5
Resources	31.7	1.1	0.5	0.6
<b>Total</b>	<b>223.2</b>	<b>6.6</b>	<b>3.2</b>	<b>3.4</b>

Not all of these risks will crystallise...but not all mitigation will succeed  
Residual figure is about 1.5% of the net budget...this is an acceptable level of risk at this stage in the year...but at the upper end of our tolerance for risk  
If results in Q2 worsen further intervention will be necessary

# Significant savings already agreed

	2017/18	2018/19
	£m	£m
NAIL	1.4	1.4
TA	0.5	0.0
Lettings agency	0.3	0.0
Civic centre letting	0.3	0.0
Street lighting	0.8	0.0
Other	1.2	0.0
Driving organisational efficiency	2.3	2.4
Civic enterprise	3.4	2.3
Making our money go further	3.6	4.8
<b>Total</b>	<b>13.8</b>	<b>10.9</b>

Any budget depends on assumptions...  
...and the real world turns out different to  
what we reasonably assumed

- **Some assumptions are technical**

- Inflation (low but rising and not uniform)
- Interest rates (low, probably until at least 2017/18)
- tax base growth (4.5% CT, NDR hard to forecast due to appeals)
- government grant (could choose to fix this for four years)
- Deliver current budget and savings already agreed

- **Some of these are policy choices**

- Council tax rate, service priorities

- **Some of these are determined externally**

- New legislation (Education, housing and planning, H&SC)

# New legislation and its probable impact

Educational excellence everywhere (DFE white paper)

Education for All (bill)

Housing and planning Act

Health & Social care integration, the STP

# Education White Paper and Education for All Bill imply far reaching changes to...

- **LA responsibilities and obligations for achieving educational outcomes**
- **Financial implications and governance structures**
  - Wholesale academy conversion no longer automatically forced...but strongly encouraged
  - New powers to require academy conversion for all schools in authority
  - Academy conversions impact on sustainability of support costs
  - Could/should we set up trading models to provide services back to academies?
- **Funding**
  - National funding formula will
    - Transfer resources from London (not always obviously to the areas of greatest need, e.g. West Sussex)
    - Reduce flexibility to use DSG to centrally fund statutory functions for education e.g. Virtual School, SEN
    - Should we adapt our trading model accordingly?

# Housing and planning act

## Housing considerations

- **High value council housing disposal**
  - Pay levy to government to fund RTB in RSLs
  - Levy to be defined in regulations
    - Expect to dispose of one in three voids or c70 units
    - Or pay equivalent value of (estimated at £7m to £14m but subject to significant change as regulations have not been published)
    - May offset this by committing to two for one new build, but details unclear
- **Pay to stay**
  - Rents for tenants earning over £40,000 tend to market rents
  - Extra income, less costs, goes to residents
  - Estimate c1,000 Brent tenants more strongly incentivised to exercise RTB as a result

# Housing and planning act

## Housing considerations

- **Social rent reduction**

- (WRWA 2015) – rents reduce 1% p.a. April 2016 to 2020
- Rent increase was previously CPI +1% or more
- Rent by 2019/20 £7.5m less than it would have been
- Not known what happens after 2020

- **Impact**

- Council housing stock reduces by (very rough estimate) 10-15%
- Rental income reducing, smaller stock to spread overhead across
- Levy payment of (£7-14m initial estimate, subject to significant change) to be found
- Hence strategic review of housing options

# What is STP?

## Sustainability and Transformation Plan

- NHS England national initiative to embed systems leadership across health, social care and wider local government
- Challenging timescales (draft plan by the end of June), which mean we need to develop:
  - A new jointly owned vision for health, social care and local government across NWL and Brent
  - New partnerships to deliver it
- NHS have asked for the vision to focus on bridging 3 gaps:
  - Health and wellbeing gap – moving the debate on from acute hospital crisis
  - Care and quality gap – delivering high quality services in all settings
  - Aggregate financial - tackling the ongoing and intractable budget gap. The national focus is on the acute financial gap, in NWL the social care gap is also included.
- Ongoing tension between:
  - A top down NHS initiative which has solving the acute financial gap at its heart, and
  - Local democratic accountability and innovation to improve well being of the local population.

# The current local government ask in NWL

Local government doesn't have to take part, but this is an opportunity, the ask in NWL is:

- NHS to fund the social care gap across NWL (approx. £145m)
  - The Brent element of this is projected to be £21m (or £13m with precept). This assumes:
    - All current savings plans are delivered
    - Demographic pressures continue at 2% per year
    - Price increases driven primarily by NLW, which are significant over this period
- No acute reconfiguration without changes in the community being in place before
- A devolution proposal for local retention of capital receipts from estates
- Set up a NWL Health and Wellbeing Board

# What about Brexit?

- Can't assess long-term economic consequences, certainly not at local level

# Brexit: three things we can reasonably forecast

- **Market turbulence**

- No significant long-term impact on pension fund (Hymans)
- Most assets not invested in UK
- Gilt yields rose (at least initially)

- **Interest rates**

- Lower for (even) longer (Arlingclose)
- Marginal loss of investment income
- A good time to invest?
  - Arguably the London housing market might fall (e.g. Singapore UOB)

- **Change in economic policy targets**

- No longer aiming for a surplus by 2020
- In theory, government:
  - anticipates less resources
  - reduces rate of public sector expenditure reduction
  - But in practice must increase risk of further funding cuts to local authority sector

# Brexit: other issues to consider?

- Political uncertainty leads to delay in policy making?
- Devolution does not progress at pace?
- Concerns over social inclusion and community cohesion?
- Probably many others?
- All of these may impact on financial planning

# Timetabling budget and policy decisions

# Overall timetable

- Legal requirement
  - Must hold budget and council tax setting meeting February 2017
    - Must set balanced budget and council tax for 2017/18
    - Can set 'business plans' for 2018/19
    - Can't legally bind Council in February 2018
    - But can choose, for most practical purposes to set budget and council tax for 2018/19
  - Must hold budget and council tax setting meeting February 2018
    - This can consider new savings and council tax proposals; or
    - This can formally adopt 'business plans' from February 2017

# To set budget(s) we need to...

- **Decide on overall objectives and strategy**
  - **Long-term place shaping and investment policy:**
    - *‘What do you want Brent to look like?’*
    - *‘What long-term strategic investments will most help to deliver this vision?’*
  - **Resource envelope:**
    - *‘What balance of local tax and tax base increases, charging for services and service provision do you want to set’*
    - *‘How far are you prepared to push the civic enterprise agenda?’*
  - **Shorter-term policy goals:**
    - *‘What difficult decisions over services are you prepared to confront?’*
    - *‘What, if any, red lines do you want to draw to protect specified services?’*
  - **Agree a process, timeline and consultation plans**
    - *‘How will you come to decisions over these questions and who be involved?’*
  - **Decide on a lobbying strategy**
    - *‘What do you want to change?’*
    - *‘What do you think you can realistically change?’*

# One possible timeline...

- **Autumn 2016**
  - Cabinet meeting
    - Publish overall financial strategy (four year settlement)
    - Publish new savings proposals for consultation
- **January 2017**
  - Cabinet meeting
    - Review results of consultation
    - Recommend budget to Council
- **February 2017**
  - Council meeting
    - Set budget for 2017/18 and, for all practical purposes, for 2018/19