

COUNCIL, 14 SEPTEMBER 2016

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: FOUR YEAR FINANCIAL SETTLEMENT

The purpose of this report is to consider the Government's offer of a four year financial settlement covering the period to 2019/20. The Council's budget strategy (including the 2016/17 financial settlement) was approved by Council on 25 February 2016.

The Council will need to respond to the Government by 14 October 2016 indicating its acceptance or rejection as appropriate.

RECOMMENDATIONS

The Council is asked to:

- a) Accept the Government's offer of a four year financial settlement covering the period from 2016/17 to 2019/20.
- b) Continue to lobby the Government for a fairer funding settlement which better reflects the needs of its residents.

REPORT DETAIL

The Government has given Councils a deadline of 14 October 2016 to develop efficiency plans to qualify for a four year settlement instead of an annual allocation with a view to aiding financial planning up until 2020.

The Government is making a clear commitment to provide minimum allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan.

The allocations as stated in the 2016/17 local government financial settlement for Havering (and reflected in the draft MTFS for financial planning purposes) are as follows:

	2016-17	2017-18	2018-19	2019-20
Business Rate Baseline (BRB) ^{(1) (2)}	22.164	22.600	23.267	24.011
Top-Up Funding ⁽²⁾	9.462	9.648	9.933	10.250
Revenue Support Grant (RSG)	20.890	12.284	6.847	1.376
Settlement Funding Allocation (SFA)	52.516	44.532	40.047	35.637

(1) Business Rate Baseline (BRB) - This represents the target business rates and will differ from Havering's actual yield

(2) Excludes any impact of business rate revaluation

On the basis of accepting the four-year offer, Havering would face reductions of £19.5m in RSG by 2019/2020; however it would bring a degree of certainty over the level of funding. The Government have also suggested that if additional savings are required to be found over the four year cycle, those who have not signed up to the deal, would bear these reductions first. Additionally, the Government have not ruled out savings being required from those who accept the four-year offer where there is an "exceptional circumstance". The allocations stated in the four year offer are subject to the normal statutory consultation process for the local government finance settlement; however the Government expects these to be the amounts presented to Parliament each year.

The consequences of declining the Government's offer are uncertain. There is no indication of the level of cuts likely to be applied nor the rate at which they might be made over the four year term. The Council's RSG is expected to fall to only £1.376m so one might assume that this represents the limit of Havering's potential loss. However, Havering will also receive £10.250m in top-up grant which could be at risk from further savings. As part of the 2016/17 settlement, 3 London authorities (Nationally 162 authorities out of 382) received a tariff adjustment in 2019/20 in order to remove additional funding over and above their RSG allocation. This is the most likely alternative if government wished to cut Havering's funding further if once all of our RSG has been removed.

If the Council wishes to accept the offer on the grounds of increased financial stability it might also wish to make clear that in doing so it does not accept the principles underpinning the grant formula. The Council could continue to lobby the Government for changes in the grant mechanism which would better reflect the pressures facing Havering's residents Havering has faced an unprecedented level of grant reduction in recent years to such an extent that its RSG will have been almost completely removed by 2019/20. Council's not signing up to the four year deal would meet with the Minister on an annual basis although

In summary the advantages and disadvantages of the proposal are as follows:

	Accepting the four year offer	Declining the four year offer
Advantages	<ul style="list-style-type: none">- Provides certainty of grant allocation.- Gives a greater ability to plan for future years- Savings are limited to those caused by exceptional circumstances.	<ul style="list-style-type: none">- Clearly rejects the methodology that allocated one of the biggest percentage grant reductions in London.- Enables the Council to meet with Minister on an annual basis
Disadvantages	<ul style="list-style-type: none">- Future grant allocations (beyond the 4 year cycle) could be based upon the "accepted" grant levels.- Continuation of the methodology in formula that uses past Council decisions on council tax to impact future grant allocations- Despite accepting the four year settlement, Havering could still see reductions in funding in "exception circumstances"	<ul style="list-style-type: none">- Those authorities who do not agree to the four year settlement will be the first point of call for any further grant reductions.

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Human Resources implications and risks:

The Council will continue to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner.

All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance

Legal implications and risks:

1. The Council has not previously been invited to decide whether or not to accept a particular payment arrangement for the Revenue Support Grant, such matters normally being determined by Central Government. Nor has any guidance been provided as to how that decision should be reached. The Local Government Finance Act 1992 and the Council's Constitution set out the parameters of the decision making process in respect of the Council's budget. It is considered that this decision falls within the Council's budget and policy framework, in that it affects future years finance and forms part of the Medium Term Budget Strategy, and accordingly is a matter to be decided by Full Council. However, since this situation is unprecedented the decision of Full Council may be reported to the Executive for endorsement.
2. In reaching decisions on these matters, Members are bound by the general principles of administrative law. All relevant considerations must be taken into account and irrelevant ones disregarded. Any decision made must be one that only a reasonable authority, properly directing itself, could have reached. In reaching a decision Members should consider and give appropriate weight to the advice of the S151 Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so.