



Ordinary Council

Agenda

Part One

Council Chamber - Town Hall

Wednesday, 4 March 2015 at 7.00 pm

Membership (Quorum – 10)

Councillors

Cllrs Mrs Davies (Chair), Keeble (Vice-Chair), Aspinell, Baker, Barrett, Carter, Chilvers, Clark, Cloke, Mrs Cohen, Mrs Coe, Faragher, Mrs Henwood, Hirst, Mrs Hones, Hossack, Mrs Hubbard, Kendall, Kerlake, Le-Surf, Lloyd, McCheyne, Mrs McKinlay, Morrissey, Mrs Murphy, Mynott, Dr Naylor, Newberry, Parker, Quirk, Reed, Russell, Ms Sanders, Sapwell, Sleep, Mrs Squirrell and Tee

Committee Co-ordinator: Jean Sharp (01277 312655)

Members are respectfully summoned to attend the above meeting to transact the business set out below.

Point of Order/Personal explanation/Point of Information

For clarity, relevant sections of Rule 8 of the Council's Procedure Rules (Part 4.1 of the Constitution) are set out for Members' information below:

8.3.14 Point of order

A member may raise a point of order at any time. The Mayor will hear them immediately. A point of order may only relate to an alleged breach of these Procedure Rules or the law. The member must indicate the rule or law and the way in which they consider it has been broken. The ruling of the Mayor on the point of order will be final.

8.3.15 Personal explanation

A member may make a personal explanation at any time. A personal explanation must relate to some material part of an earlier speech by the member which may appear to have been misunderstood in the present debate. The ruling of the Mayor on the admissibility of a personal explanation will be final.

8.3.16 Point of Information or clarification

A point of information or clarification must relate to the matter being debated. If a Member wishes to raise a point of information, he/she must first seek the permission of the Mayor. The Member must specify the nature of the information he/she wishes to provide and its importance to the current debate. If the Mayor gives his/her permission, the Member will give the additional information succinctly. Points of information or clarification should be used in exceptional circumstances and should not be used to interrupt other speakers or to make a further speech when he/she has already spoken during the debate. The ruling of the Mayor on the admissibility of a point of information or clarification will be final.

Information for Members of the Public

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The Chair of the meeting may terminate or suspend filming, photography, recording and use of social media if any of these activities, in their opinion, are disrupting proceedings at the meeting.

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Evacuation Procedures

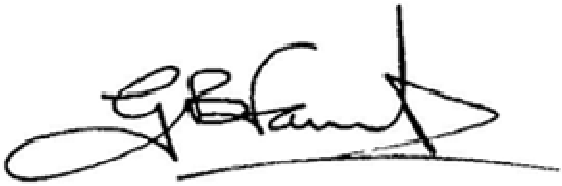
Evacuate the building using the nearest available exit and congregate at the assembly point in the North Front Car Park.

Part I

(During consideration of these items the meeting is likely to be open to the press and public)

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7.	Urgent Business An item of business may only be considered where the Chair is of the opinion that, by reason of special circumstances, which shall be specified in the Minutes, the item should be considered as a matter of urgency.		

A handwritten signature in black ink, appearing to read 'G. Blundell', with a long horizontal flourish underneath.

Chief Executive

Town Hall
Brentwood, Essex
17.02.2015

4 March 2015

Ordinary Council (Budget)

**Medium Term Financial Plan (General Fund) 2015/16 –
2017/18**

Report of: Jo-Anne Ireland, Acting Chief Executive

Wards Affected: *All Wards*

This report is: *Public*

1. Executive Summary

- 1.1 The Medium Term Financial Plan (MTFP) sets out the key financial management principles and budget assumptions. It is then used as the framework for the detailed budget setting process to ensure that the Council's resources are managed effectively in order to meet its statutory responsibilities and deliver the priorities of the Council, over the medium term.
- 1.2 This report considers the detailed budget proposals for 2015/16, together with a proposal to freeze Council Tax for 2015/16.

2. Recommendation(s)

- 2.1 **To note the key assumptions that underpin the Medium Term Financial Plan and the associated risks.**
- 2.2 **To note the projected outturn of an estimated deficit of £17,000 for 2014/15.**
- 2.3 **To approve the spending requirement for 2015/16 as shown in the table at para 4.38 which includes:**
 - 2.3.1 **The sum of £163,850 for new developments**
 - 2.3.2 **The sum of £545,000 for anticipated savings**
 - 2.3.3 **The sum of £361,634 to be taken from the Working Balance**
 - 2.3.4 **The sum of £350,000 to be earmarked for the WHW Development.**
- 2.4 **To approve the Section 151 Officer's Assurance Statement on the robustness of the estimates and adequacy of the reserves.**
- 2.5 **That regular reports are presented to Finance & Resources Committee on the progress on delivery of the savings.**

3. Introduction and Background

3.1 The key priorities for the Council as outlined in the Corporate Plan for the period 2013 – 2016 are:

- **Street Scene and Environment** - Brentwood is a clean, green and pleasant Borough. Maintaining and improving this involves not just the Council but also our communities and many partners. We will find new ways of working with our partners and communities, and improve the way we play our part, to enhance the environment and attractiveness of the Borough.
- **Localism** – We believe that through bringing communities together and working effectively in collaboration with a range of groups and organizations we can better ensure the future wellbeing of our Borough. We will work with local businesses, community groups and the voluntary sector to develop projects that will enhance and support the local community.
- **A Prosperous Borough** – A new Local Development Plan will shape the way our Borough will change over the next fifteen years. We will work hard to get the best outcome and achieve a good balance for residents, business and the economy in a way that celebrate Brentwood's unique history and quality of life; both within the Borough and influencing the outcome of regional developments that will affect Brentwood residents.
- **Housing, Health and Wellbeing** – Current legislative reforms will lead to significant changes to the way the Council supports people in housing need and in receipt of state benefits. We will develop different ways of working, both in the way we deliver services and with the voluntary sector, to make sure that the more vulnerable residents in Brentwood are protected, and help goes to those most in need of it.
- **A Safe Borough**- In this era of austerity, it has never been more important to work in partnership to tackle the Borough's community safety issues. As the new Police and Crime Commissioners begin their work, we will involve ourselves in new ways of working and continue to work with Safer Brentwood (the statutory Community Safety Partnership for Brentwood). With our partners and communities, we will further reduce incidents of crime and anti-social behavior in the borough.
- **A Modern Council** – Between 2013 and 2016 the way the council looks and works will be transformed. We will make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers money is spent even more wisely. We will become more entrepreneurial. We will have services delivered by those best placed to deliver excellence and value for money, whilst holding onto and enhancing our role, duties and powers as Local Council and Community Leader.

Planning Assumptions

- 3.2 **Inflation (CPI)** - The consumer prices index (CPI) shows a decrease in the forecast for CPI in 2014 of 0.4% and 2015 of 0.8%, compared to Budget 2014:

	2013	2014	2015	2016	2017
Autumn Statement 2014	2.6%	1.5%	1.2%	1.7%	2.0%
Budget 2014	2.6%	1.9%	2.0%	2.0%	2.0%
Autumn Statement 2013	2.6%	2.3%	2.1%	2.0%	2.0%

For medium term financial planning purposes, the inflation rates per Autumn Statement 2014 have been used for goods and services.

- 3.3 **Pay Awards (Inflation)** – National agreement has been reached for a 2 year pay award which will run from 1 January 2015 to 31 March 2016. For Brentwood Borough Council employees this results in a 2.2% increase from 1 January 2015. In addition to this, a one off non-consolidated payment of £150 per employee has been agreed. The terms of this payment are such that it is not added to the basic pay. For financial planning purposes a 1% increase has been included for 2016/17 onwards.
- 3.4 **Fees and Charges** - Historically, the Council has increased fees and charges in line with inflation. This is to reflect that the assumption that the costs of running the service will rise by the same rate as inflation. For 2015/16 Fees and Charges have been maintained at 2014/15 levels. The table below shows the recent decisions on Fees and Charges:

Year	Change
2011/12	+1.00%
2012/13	Freeze
2013/14	+2.50%
2014/15	+2.50%
2015/16	Freeze

There is a potential risk that there will be an implicit cost to the proposed freeze since it will not keep pace with the inflationary cost increases. However this cannot be quantified or confirmed until such time as a scheduled review of the current charging policies has been undertaken.

Demographic Changes

- 3.5 Between 1991 and 2011, the population across Brentwood increased by 4.1%. This compares to an average increase of 10.7% across the whole of England.
- 3.6 According to the Office for National Statistics, the projection for 2011 – 2021 is that Brentwood will grow by a further 9.7% to give a projected population of 80,979 by 2021.
- 3.7 According to the Office for National Statistics, the unemployment rate in the UK fell to 5.8% over the three months to November 2014. This compares to an unemployment rate across Brentwood of 3.7%.
- 3.8 An analysis of the number of Housing Benefit and Council Tax Benefit/Local Council Tax Support claimant numbers for Brentwood is shown below:

	March 2012	March 2013	March 2014	March 2015 est
Housing Benefit	3,330	3,292	3,184	3,024
Council Tax Benefit	4,381	4,260	-	-
Local Council Tax Support	-	-	3,987	3,751

4. Issue, Options and Analysis of Options

Autumn Statement

- 4.1 The Chancellor delivered his Autumn Statement on 3 December 2014. The key message for Local Government was that there were no additional funding reductions planned for 2015/16 beyond those already indicated within the indicative settlement figures. However, the Government aims to find a further £10bn of efficiency savings by 2017/18. The delivery of these will be led by the Cabinet Office and are anticipated to focus on the areas of digital take up of public services and improving IT procurement. These figures were confirmed on 3 February 2015, with no changes to the values received in December.
- 4.2 The 2015/16 Settlement represents the third year in which Business Rates Retention (BRR) is the principal form of Local Government funding. Government funding is split between two areas:
- Revenue Support Grant (RSG) – guaranteed sum
 - Retained Business Rates – sum received is subject to Local Authorities collecting Business Rates in line with the Government's assumed levels

- 4.3 The Council currently collects some £30.1 million in Business Rates Income, of which it currently receives back around £1.7 million through the Finance Settlement.
- 4.4 On 29 October 2014 the Finance and Resources Committee resolved that the Council joins the Essex Wide Pool for business rates in 2015/16. The pool consists of ten Essex local authorities including Essex County Council, Essex Fire Authority and eight Borough and District Councils. By pooling, any levy payments that would have been made to central government in relation to business rate growth can be saved and distributed to the members of the pool. For 2015/16 it is estimated that Brentwood's share of the levy savings will be £100,000.
- 4.5 An on-going concern for the Council was the number of appeals lodged with the Valuation Office Agency. Whilst every effort to forecast the impact of these has been made, the success or failure of appeals is beyond the control of the Council.
- 4.6 The Valuation Office Agency continues to experience delays in dealing with Tribunal appeals against the Rateable Values contained within both the 2005 and 2010 rating lists. Information from the VOA website indicates that a total of 2,543 appeals have been made by businesses within the Borough against their current valuation, of which 113 remain outstanding.
- 4.7 Successful appeals can be backdated to 1 April 2005 and in view of this, provision of £531,555 was set for 2013/14. In the current year (2014/15) appeals costs has been set at £464,631, whilst £1,567,222 has already been allowed for the years before 2013/14 within Government Returns. The Government have pledged to clear 95% of the backlog of appeals by July 2015.
- 4.8 The funding announced as part of the Finance Settlement for 2015/16 is as follows:

	2014/15	2015/16 Indicative (Dec 2014)	2015/16 Final (Feb 2015)
	£	£	£
Revenue Support Grant	1,719,000	1,258,692	1,258,692
NNDR Baseline Funding	1,478,000	1,505,959	1,505,959
Council Tax Freeze Grant	56,470	58,562	58,562
TOTAL	3,253,470	2,823,213	2,823,213

- 4.9 Funding for the new Local Council Tax Support Scheme is included within the overall funding and is no longer separately identifiable. Therefore the Council has lost the transparency of how these grants are being cut as part of the overall reduction in Revenue Support Grant. The overall scheme costs for 2015/16 are estimated at £3.8 million.
- 4.10 Homelessness Prevention Funding of £49,062 has also been included within the overall 2015/16 funding allocation. In order to provide continued support in this area, corresponding budgets have been included in order that this element of funding can be earmarked for initiatives which prevent homelessness.

New Homes Bonus Grant

- 4.11 The New Homes Bonus was introduced from 2011/12 as a financial incentive and reward for housing growth. The grant is based on a national average Council Tax value of additional homes including any properties brought back into use. There is also an additional premium for affordable homes. The Bonus Grant is payable for 6 years.
- 4.12 For 2015/16, the Council is due to receive £1,455,427 in New Homes Bonus Grant. This is some £58,823 lower than originally anticipated. The profile of the Grant payments are shown below:

	11/12	12/13	13/14	14/15	15/16	16/17	17/18
	£'000	£'000	£'000	£'000	£'000	Est £'000	Est £'000
Yr 1	255	255	255	255	255	255	
Yr 2		214	214	214	214	214	214
Yr 3			330	330	330	330	330
Yr 4				416	416	416	416
Yr 5					241	241	241
Yr 6						250	250
Yr 7							250
TOTAL	255	469	799	1,215	1,456	1,706	1,701

- 4.13 The primary reason for the reduction in New Homes Bonus is that the net increase in stock between October 2013 and October 2014 was lower than anticipated with a net increase of 166 properties, compared to 314 in the previous year.
- 4.14 The New Homes Bonus Grant remains a flexible, non ringfenced fund for Local Authorities to spend as they deem appropriate. This could include:
- Reinvesting in housing or infrastructure.
 - Support for local services or facilities.
 - General financial support to hold down Council Tax levels.

- 4.15 Since its introduction in 2011/12, the Council has used the New Homes Bonus Grant to support the General Fund Budget. For 2015/16, the Council will continue to treat the Grant funding as general financial support.
- 4.16 This strategy presents a significant financial risk to the Council should the future funding arrangements change as a result of the General Election.

Projected Outturn 2014/15

- 4.17 The estimated forecast for the General Fund is an estimated deficit of around £17,000 as at 31 March 2015. This compares to the estimated surplus of £90,000 reported as part of the Half Year Review to Finance and Resources Committee on 29 October 2014.
- 4.18 The table below outlines the key variances:

Budget	Difference £	Explanation
Asset Management	25,000	Repairs and maintenance identified through reviews in order to maintain standards.
Cesspool	20,000	Budgeted income not achievable as the delivery vehicle had to be scrapped as it was beyond economical repair. It is not commercial viable to purchase another vehicle to continue providing this service.
Winter Service	12,000	Budgeted income not achievable as the delivery vehicle had to be scrapped as it was beyond economical repair. It is not commercial viable to purchase another vehicle to continue providing this service.
Net Subsidy Received	73,000	The net subsidy has been amended to reflect the Mid Year subsidy estimate
Vehicle Fleet Management	(40,000)	Savings due to reductions in fuel prices
TOTAL	90,000	

- 4.19 The sum of £1.2 million earmarked by Full Council on 5 March 2014 for William Hunter Way has been revised down to £1 million and re-profiled over 2015/16 and 2016/17 to reflect that there will be no spend commitment required during

2014/15. The net result is an estimated working balance at the end of the financial year (2014/15) of some £4.5 million.

Budget 2014/15 and Forecasts 2015/16 – 2016/17

- 4.20 The Audit and Scrutiny Committee reported on their Scrutiny work on the outline budget proposals at their meeting on 27 January 2015. A copy of their report is attached at Appendix A. Attached at Appendix B is a copy of the Finance & Resources Committee response to the Audit & Scrutiny findings.

Anticipated Savings

- 4.21 The MTFP approved in March 2014 included anticipated savings of £680,000 for 2015/16. These were proposed to be delivered through:

	£
Senior Management Restructure	230,000
Contact Centre	250,000
Revenues & Benefits	200,000
TOTAL	680,000

- 4.22 As previously reported to the Finance & Resources Committee in October, the Contact Centre Savings were identified to be challenging to deliver in year 1 (2014/15). This has had a consequential effect in the delivery of savings in 2015/16. In addition to this, the delayed introduction of Universal Credit has resulted in non delivery of the Revenues and Benefits related savings.

- 4.23 The anticipated savings have now been revised as follows:

	2015/16 £	2016/17 £	2017/18 £
Senior Management Restructure	100,000	200,000	200,000
Customer Services Transformation	100,000	150,000	200,000
Lease Reviews	10,000	10,000	10,000
TOTAL	210,000	360,000	410,000

- 4.24 A number of other savings have been identified during the update and preparation of the MTFP. The key savings are outlined in the table below:

	2015/16 £	2016/17 £	2017/18 £
Recycling – Introduction of Textiles Service	20,440	20,440	20,440
Open Spaces – Crazy Golf Income from August 2015	13,000	25,000	25,000
Street Services – Reduction in Fuel Prices	75,000	-	-
Car Parks – increased income from Lease arrangement	120,000	120,000	120,000
Housing - Service/Budget Review	22,000	22,000	22,000
Assets – Anticipated Income from Old House	-	-	64,000
Assets – Anticipated Income from Warley TC	-	-	42,240
TOTAL	250,440	187,440	293,680

4.25 Due to financial constraints, the Council is not in a position to invest heavily in services in the short term. Instead, the Council must carefully consider a longer term strategy to reduce costs and/or increase income levels.

4.26 The proposed developments are as follows:

Description	2015/16 Cost £	Future Cost £
Borough Bulletin – 2 editions per year	2,500	2,500
Essex Devolution Strategy	5,000	-
Apprenticeships	62,250	62,250
Local Development Plan – additional costs	50,000	-
Renaissance Group Grant	20,000	-
Additional Events	15,000	15,000
Election Marketing	5,100	-
Lone Worker Devices	4,000	4,000
TOTAL	163,850	83,750

- 4.27 In addition to the above, the Council needs to consider revenue implications of potential borrowing to finance the Council's Capital Expenditure. These are made up of a combination of interest payments and a minimum revenue contribution to repay the loan. The combined revenue costs are £77,000 in 2015/16, £237,000 in 2016/17 and £386,000 in 2017/18.
- 4.28 The funding position of the Council (after taking into consideration the savings and investment proposals above) for the period 2014/15 – 2017/18 is set out below:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Total Net Forecast Spend	9,997,927	10,617,492	11,242,046	11,348,160
Total Funding	(9,980,570)	(9,874,708)	(10,087,519)	(9,858,203)
Funding Gap / (Surplus)	17,357	742,784	1,154,527	1,489,957
Anticipated Savings	-	(210,000)	(360,000)	(410,000)
Proposed Developments	-	163,850	83,750	83,750
Net Funding Gap / (Surplus)	17,357	696,634	878,277	1,163,707
Working Balance b/fwd	4,511,000	4,493,643	3,447,009	1,918,732
Funding Gap	17,357	696,634	878,277	1,163,707
Earmarked for WHW	-	350,000	650,000	-
Working Balance c/fwd	4,493,643	3,447,009	1,918,732	755,025

- 4.29 The revised table above confirms that from 2015/16 onwards a budget gap begins to emerge as the Government Grant reductions continue. This gap could be widened further subject to the proposals emerging from the results of the General Election.

Addressing the Funding Gap

- 4.30 The MTFP provides the framework with which the Council will achieve its aspirations. A balance has to be struck, as a consequence of the constraints on financial resources, between the pace of improvement and the affordability of proposals.

- 4.31 The future of Local Government finance now contains many uncertainties. However, the Council has greater opportunities in the form of:
- Retaining Business Rates income locally and therefore having less reliance on Central Government support.
 - Raising more Council tax income through the development of new homes, linked to the LDP.
- 4.32 The Council has embraced the modernisation agenda and is committed to achieving continuous improvement and innovation in service delivery. It is also committed to working with partners to improve the quality of life for residents and businesses within the Borough of Brentwood.
- 4.33 Whilst the Council will explore opportunities to identify and secure additional income with which to support services, it is clear that there is also the opportunity to balance its budget through the strict management of expenditure levels and securing efficiencies.
- 4.34 Services need to continue to drive through efficiencies and continually review their working practices and operations to try and make them as efficient as possible. This can be achieved by:
- Service reviews.
 - Reviewing vacant posts.
 - Identifying budget underspends.
 - More strategic approaches regarding a review of service delivery models available.
 - Review of current Committee arrangements.
- 4.35 It should also be noted that the current waste contract for the disposal of recycling material will come to an end in May 2015. The recycling market has changed significantly since this contract was agreed and it is envisaged that any new contract for the disposal of recycling material could lead to a significant loss of income for the Council. The Council has started a tender process in partnership with other Authorities for the disposal of recycling material and progress along with cost implications will be reported to the March Environment Committee.
- 4.36 Through the Council's Appraisal Service, the Corporate Leadership Board has agreed a total on-going target savings figure of £480,000. Of this amount £335,000 relates to General Fund and £145,000 relates to the HRA.

4.37 After allowing for the General Fund savings, there is still an unidentified savings target as follows:

	2015/16 £	2016/17 £	2017/18 £
Funding Gap	696,634	878,277	1,163,707
Efficiency Savings	(335,000)	(335,000)	(335,000)
Revised Gap	361,634	543,277	828,707

4.38 This produces a revised funding position for the MTFP as follows:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Total Net Forecast Spend	9,997,927	10,617,492	11,242,046	11,348,160
Total Funding	(9,980,570)	(9,874,708)	(10,087,519)	(9,858,203)
Funding Gap / (Surplus)	17,357	742,784	1,154,527	1,489,957
Anticipated Savings	-	(545,000)	(695,000)	(745,000)
Proposed Developments	-	163,850	83,750	83,750
Net Funding Gap / (Surplus)	17,357	361,634	543,277	828,707
Working Balance b/fwd	4,511,000	4,493,643	3,782,009	2,588,732
Funding Gap	17,357	361,634	543,277	828,707
Earmarked for WHW	-	350,000	650,000	-
Working Balance c/fwd	4,493,643	3,782,009	2,588,732	1,760,025

4.39 Plans for capital investment are used to develop the Capital Programme. The Programme is driven by the need to get maximum value for money from the Council's assets by making sure that they are well maintained and where possible, providing a revenue return. The Council can borrow to fund its capital expenditure and with interest rates historically low, this is a potentially viable option.

- 4.40 Other key strategies that are being developed are:
- Waste.
 - Leisure and Recreation.
- 4.41 Waste Services is one of the largest services delivered, both by ECC (as the disposal authority) and by the Borough Council (as the waste collection authority).
- 4.42 The Council is seeking to develop a long term strategy for the Council. The scope of the Strategy will include:
- Collection methods.
 - Frequencies.
 - Shift Patterns.
 - Joint Working.
 - Shared Facilities.
- 4.43 Whilst it is not possible at this stage to quantify any savings/additional income, these will need to be a key outcome from the development of the Strategy.
- 4.44 The Council is also seeking to produce a Leisure and Recreation Strategy (including a review of Open Spaces). The scope of this work will include:
- A viable and deliverable model of sports facility stock (type/mix) that meets existing and anticipated future demand.
 - A comprehensive assessment of the supply of and demand for outdoor playing pitches in Brentwood Borough.
 - A clear understanding of the overall surpluses and deficiencies across the Borough and any specific geographical and/or individual facility needs.
 - Establishment of key principles to help inform where future resources should be focused and help inform the policy direction of the emerging LDP.
 - Production of a strategy which is compliant with Sports England guidance.
- 4.45 Whilst it is not possible at this stage to quantify any savings/additional income, these will need to be a key outcome from the development of the Strategy.
- 4.46 The uncertainty on future funding arrangements, linked to the General Election, places increased pressure on the Council to constantly challenge and revire its services and processes. It is essential that the Council explores the opportunities around the key areas of Assets, Waste and Leisure in order to address the unidentified savings gap. Given the importance of securing savings to the financial stability of the Council, progress will be reported on a regular basis to the Finance and Resources Committee.

Working Balances and Reserves

- 4.47 As part of the budget approved in March 2014, a minimum General Fund Working Balance of £2.5m was agreed. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2015/16. Revised calculations show that the assessed level will be around £2.2million.
- 4.48 In addition to the General Fund Working Balance, the Council keeps a number of Earmarked Reserves on the Balance Sheet. These Reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. The balance of these Reserves as at 1 April 2014 was around £3.3 million. A list of the Earmarked Reserves is attached as Appendix C.

Council Tax Base and Collection Rate

- 4.49 The calculation of the tax base has been amended to take account of the Local Council Tax Support (LCTS) Scheme. The replacement of Council Tax Benefit with LCTS effectively reduces the tax base as LCTS is provided as a discount against the Council Tax liability rather than a rebate which was previously repaid to the Council via Government Subsidy.
- 4.50 The impact of LCTS, has, in part, been offset by the approved changes to the discounts and exemptions awarded to empty homes. The resultant tax base for 2015/16 is 31,155.6. This compares to a figure of 30,893.4 for 2014/15. An assumed growth of 0.5% has been included within the MTFP, with no increases in the actual level of Council Tax included.
- 4.51 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of amounts due which are actually collected. The forecast collection rate has been agreed at 98% and has been incorporated within the Medium Term Financial Plan calculations.

Collection Fund Surplus

- 4.52 Following a calculation of the income and expenditure in the Collection Fund for this year, it is estimated that there will be an accumulated surplus of £1,000,000 to be distributed in respect of Council Tax by 31st March 2015. This will be distributed as follows:

Authority	Amount £
Brentwood Borough Council	120,582
Essex County Council	736,610
Police and Crime Commissioner	97,788
Essex Fire Authority	45,020

- 4.53 The Council must take the amount of £120,582 into account when it sets its element of the Council Tax for 2015/16.
- 4.54 This transaction is covered by legislation. Since the Council Tax receipts collected have exceeded our forecast there is additional income. This has to be shared amongst all precepting authorities in accordance with their original precept value (for Brentwood Borough Council that equates to about 12%). This amount must then be included within the budget for 2015/16 to reduce our Council Tax Requirement for that year.

Council Tax Referendums

- 4.55 As part of the 2011 Localism Act, Council Tax Capping in England has been abolished and replaced by new powers for residents to approve or veto excessive tax increases through a referendum. If the residents vote against the increase, the Council will have to revert to a Council Tax level that is compliant with the Government's proposed increase.
- 4.56 A Council Tax referendum principle of 2% will apply for 2015/16. This will apply to all principal Local Authorities, Police & Crime Commissioners and Fire & Rescue Authorities.
- 4.57 There are no equivalent limits proposed for Parish and Town Councils for 2015/16, although these may be introduced in future years to provide protection for local taxpayers. There is an implied level of funding within the Finance Settlement for Local Council Tax Support (LCTS) Schemes, and specifically to reflect reductions in parish tax base resulting from LCTS. The Council has already agreed to award grants to Parishes to ensure that the starting point for 2015/16 for each area is unaffected.

Council Tax 2015/16

- 4.58 The Local Government Finance Settlement announced that Council Tax Freeze Grants will now be built into the Spending Review baseline. This has been undertaken to ensure that the extra funding for freezing (or reducing) Council Tax remains available and so help prevent a "cliff edge" effect from the freeze grant disappearing after 2015/16.
- 4.59 Any Authority which freezes or reduces their basic amount of Council Tax in 2015/16 compared to 2014/15 will be eligible to receive a grant equivalent to 1% of the basic amount of Council Tax set for 2015/16. For Brentwood Borough Council this equates to £58,562. For 2015/16, this grant will be payable for 1 year only.
- 4.60 There is an option to increase Council Tax by up to 2%. However the recommendation is to freeze the Council Tax for 2015/16 and to seek opportunities within the Council to reduce costs and increase income, rather than seek funding from local residents during these challenging times. Whilst any Council may increase Council Tax above 2%, the Council would incur

referendum costs arising from increases greater than 2% which are between £80,000 and £100,000.

- 4.61 It is therefore recommended that Council Tax be frozen for 2015/16. As a result of this the Council will be eligible for the Council Tax Freeze Grant.
- 4.62 The full Council Tax resolution is included within a separate report elsewhere on this agenda.

Section 151 Officer's Assurance

- 4.63 Section 25 of the Local Government Act 2003 requires that, when the Council is considering next year's budget and Council Tax levels, the Council's Section 151 Officer (the Director of Strategy and Corporate Services) must report on:
- the robustness of the estimates, and
 - the adequacy of the proposed financial reserves.
- 4.64 The estimates are considered to be robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and fees and charges income.
- 4.65 Additional savings of £335,000 have been anticipated for 2015/16 meaning that the sum of £361,634 would need to be taken from the Working Balance in order to produce a balanced budget position. This is acceptable since the impact of this does not breach my recommended £2.2 million minimum level. Given that future funding pressures are inevitable, further work will need to be undertaken to ensure the financial viability over the medium term.
- 4.66 Potential risks in respect of the budget and their estimated impact on the projections have been undertaken and have been used to inform the levels of reserves required.
- 4.67 A list of the Council's Earmarked Reserves is attached at Appendix C. The levels of reserves are considered to be adequate to fund the planned expenditure identified by the Council.
- 4.68 Deciding how and when to utilise the General Fund Working Balance and Earmarked Reserves is a matter to be determined locally depending on the priorities of the Council. However, it is my opinion that there is a requirement for maintaining the current reserve levels and the working balance at £2.2 million during 2015/16. This will continue to be kept under review.

5 Reasons for Recommendation

- 5.1 The Council is required to approve the Budget as part of the Budget and Policy Framework.

6 Implications

Financial Implications

Name & Title: Jo-Anne Ireland, Acting Chief Executive

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- 6.1 The financial implications are set out in the report.

Legal Implications

Name & Title: Chris Potter, Monitoring Officer and Head of Support Services

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- 6.2 The Council is obliged by Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is consistent with sound financial management and the Council's obligation under Section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium term financial plan. The medium term financial plan informs the budget process and may be viewed as a related function.
- 6.3 The report provides information about risks associated with the medium term financial plan and the budget. This is consistent with the Council's obligation to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit (England) Regulations 2011 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

7 Appendices to this report

Appendix A – Audit & Scrutiny Budget Feedback

Appendix B – Finance & Resources Response

Appendix C – Earmarked Reserves

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27 January 2015

Audit and Scrutiny Committee

Budget Scrutiny Feedback

Report of: Jo-Anne Ireland, Acting Chief Executive

Wards Affected: None

This report is: Public

1. Executive Summary

- 1.1 Effective scrutiny can add considerable value to how the Council makes decisions on the allocation of resources. This has become increasingly important as the Council continues to set budgets against a background of tough economic conditions and severe funding cuts from Central Government. The medium term financial planning process will need to address these continued financial challenges and develop a strategic approach to address funding gaps.

2. Recommendations

- 2.1 **That the feedback on the Proposed and Anticipated Savings outlined in para 4.4 is agreed and submitted to Finance and Resources Committee.**
- 2.2 **That the Finance and Resources Committee are requested to provide further information within their future reports on how the funding gaps will be addressed.**
- 2.3 **That the feedback on the Proposed Budget Investments outlined in paras 4.6 and 4.7 is agreed and submitted to Finance and Resources Committee.**
- 2.4 **That the Budget Scrutiny work should commence in September in future years and start with a service review of existing budgets.**
- 2.5 **That the proposed working balance level of £2.1m - £2.2m is supported.**
- 2.6 **That the Council Tax Financial Modelling is presented to the Finance and Resources Committee for consideration.**

3. Introduction and Background

3.1 At the meeting on 26 November 2014, it was agreed that a Task and Finish Group be created to deal with the 4 main areas of the budget:

Work Area	Expected Outcome
1) Review Savings Proposals	<ul style="list-style-type: none">• Evaluate the impact of any savings proposed• Test if the anticipated savings are realistic and achievable
2) Review Budget Growth Proposals	<ul style="list-style-type: none">• Evaluate the impact of any new investment proposals• Confirm that robust business plans are in place for new initiatives (and test the assumptions within them)
3) Review the working balance and reserve levels	<ul style="list-style-type: none">• Review the risk assessments undertaken to inform the levels• Test the levels through benchmarking data with similar authorities
4) Review the Council Tax proposals	<ul style="list-style-type: none">• Evaluate the financial impact of the proposal

3.2 This report considers the initial assumptions and proposals put forward by the Finance and Resources Committee and provides feedback on those proposals. The role of the Audit & Scrutiny Committee is not to review every single figure, but to test the choices made regarding resource allocation and how well resources are being used to deliver policy objectives¹.

3.3 The Finance and Resource Committee will then finalise its proposals for submission by way of recommendation to the Council taking into account the comments from the Audit and Scrutiny Committee. The report to Council must show the Finance and Resource Committee response to these comments.

¹ The current Corporate Plan covers the period 2013 – 2016.

4. Issue, Options and Analysis of Options

4.1 In accordance with the agreed recommendation from November, a Task and Finish Group was formed of the following Members:

- Cllr Gareth Barrett
- Cllr John Kerslake
- Cllr Phil Mynott
- Cllr Noelle Hones

4.2 The Group met on 3 occasions to consider the 4 main areas of:

- I. Proposed and Anticipated Savings
- II. Proposed Budget Investment
- III. Working Balance and Reserves
- IV. Council Tax

4.3 The Finance and Resources Committee presented their initial budget assumptions and proposals to its meeting on 14 January 2015. A copy of the full report can be found at Appendix A.

4.4 *Proposed and Anticipated Savings*

The Group considered the following proposals from Finance and Resources Committee:

	2015/16 £	2016/17 £	2017/18 £	Comments
Recycling – Introduction of Textiles Service	20,440	20,440	20,440	Previous Committee decision.
Open Spaces – Crazy Golf Income from August 2015	13,000	25,000	25,000	Contractual Income.
Street Services – Reduction in Fuel Prices	75,000	75,000	75,000	Are future year's savings sustainable if this contract is not locked.
Car Parks – increased income from Lease arrangement	120,000	120,000	120,000	Impact of any future development proposals may impact on these savings.
Housing - Service/Budget Review	22,000	22,000	22,000	Agreed.
Assets – Anticipated Income from Old House	-	-	64,000	Previous Committee decision.
Assets – Anticipated Income from Warley TC	-	-	42,240	Previous Committee decision.
TOTAL	250,440	262,440	368,680	

	2015/16 £	2016/17 £	2017/18 £	Comments
Senior Management Restructure	100,000	200,000	200,000	Noted that there were some risks to the restructure but that the step change approach was valid.
Customer Services Transformation	100,000	150,000	200,000	More detailed financial targets requested to ensure delivery of savings could be monitored.
Lease Reviews	10,000	10,000	10,000	Question if any additional information was available to inform future year savings (which appear low).
TOTAL	210,000	360,000	410,000	

4.5 In summary, the Group recognised that there was a lot of uncertainty surrounding the outcome of the General Election. As a consequence, this places a huge amount of uncertainty both on future funding levels and also the funding gaps. However, the Group were concerned that the information received to date did not address the £3m funding gap and would therefore hope to see further detail on this in future reports.

4.6 ***Proposed Budget Investment***

The Group considered the following REVENUE proposals from Finance and Resources Committee:

Description	2015/16 Cost £	Future Cost £	Comments
Borough Bulletin – 2 editions per year	2,500	2,500	Agreed that this should be the maximum spend, with any publication being linked to consultation documents in order to maximize the benefit and also share the costs.
Essex Devolution Strategy	5,000	-	Agreed as a prudent investment in order to try and identify Essex wide opportunities.
Apprenticeships	62,250	62,250	Business case and clear resource requirement must be identified prior to appointment. Concerns raised re future employment opportunities and therefore recommended that a future review of this requirement is undertaken.

Local Development Plan – additional costs	50,000	-	Agreed.
Renaissance Group Grant	20,000	-	Agreed for one year only due to financial uncertainty post General Election.
Additional Events	15,000	15,000	Would like clarification on the specific events on offer before a final budget allocation is made. Evaluation of events will be key to future years funding support.
Election Marketing	5,100	-	Clarification on which year this will target to ensure maximum impact and benefit to the Council.
Lone Worker Devices	4,000	4,000	Agreed – essential contract.
TOTAL	163,850	83,750	

4.7 The Group also considered the following CAPITAL proposals from Finance and Resources Committee:

	2015/16 £	2016/17 £	2017/18 £	Comments
Existing Schemes:				
Vehicle Replacement Programme	200,000	150,000	150,000	Detailed schedule to support the figures requested.
Car Park Refurbishment & Upgrade	15,000	-	-	Accepted that this is part of a 2014/15 scheme – requested final costs estimates.
Home Repair Assistance Grants	50,000	50,000	50,000	Would request to see previous year spend patterns to verify this value.
Disabled Facilities Grants	280,000	280,000	280,000	This attracts external funding.
CCTV System Upgrade	5,000	5,000	-	Agreed – small investment for a valuable service.
Play Area Refurbishments	100,000	100,000	100,000	Work programme requested to support the budget. Section 106 monies and locations should also be considered.

Town Hall Remodelling	2,780,890	-	-	Previous committee decision. Would like to see the ICT element shown separately.
TOTAL	3,430,890	585,000	580,000	
New Schemes:				
Brentwood Leisure Centre – filter refurbishment, boilers and air handling	88,280	-	-	Essential works identified through Inspection Report.
Improvements at Brentwood and Shenfield stations	-	200,000	-	Pump priming funds for SELEP bid.
Structural and Safety Works at the Multi Storey Car Park	375,050	663,950	-	Profile essential works and spend. Development study outcome is essential prior to any large investment.
Old House Redevelopment	1,080,000	-	-	Previous Committee decision.
ICT Strategy	100,000	100,000	100,000	More information needed – and must be linked to the spend profile of the £500,000 budget within the Town Hall Project.
Replacement of Folding Machine	2,000	-	*	Agreed.
TOTAL	1,645,330	963,950	100,000	

4.8 The Group raised concerns that their work had focussed on proposed changes and did not provide an opportunity to challenge existing spend levels in order to scrutinise value for money. The Group would therefore like to recommend that in future years their work commences in September with a review of each service area. The Group also commented in general that any spending commitments beyond 2015/16 should be conditional on an evaluation of any lessons learned/project success and delivery of value for money.

4.9 **Working Balance and Reserves**

As part of the budget approved in March 2014, a minimum General Fund Working Balance of £2.5m was agreed. The Group was presented with a Risk Assessment of the potential Reserves level for 2015/16 by the Section 151 Officer. The assessment highlighted that a minimum working balance level of £2.1m – £2.2m was recommended.

- 4.10 The Group requested that higher weighting be placed on the Risk Assessment for potential non-delivery of anticipated savings and further external funding reductions. A revised Risk Assessment then placed the minimum working balance level at just over £2.2m. A copy of the Risk Assessments is attached as Appendix B.
- 4.11 The Group were also provided with comparative data from other Essex Authorities on Working Balance and Earmarked Reserve Levels and this information is attached as Appendix C to this report. The table identifies that even taking into consideration the £1.2m earmarked for William Hunter Way, the Council still maintains a health Working Balance (GF Reserve) when compared to neighbouring Authorities.
- 4.12 The feedback from the Group was that given the level of uncertainty around the future Government Grants and New Homes Bonus Grant Allocations post the General Election that it would be irresponsible to operate a working balance below the £2.1m - £2.2m identified through the Risk Assessment.
- 4.11 **Council Tax**
The Group received data on a range of options including:
- Council Tax Freeze
 - 1% Reduction
 - 1.5% Reduction
 - 2% Reduction
 - 1% Increase
 - 1.5% Increase
 - 2% Increase
- 4.12 The Group recognises that in light of the recent announcement that a limit of 2% on Council Tax will remain in force for 2015/16 and therefore in reality any increase would be limited to 1.99% in order to avoid the costs of a Local Referendum.
- 4.13 The Group also challenged the assumption of an annual increase of 0.5% on the Council Taxbase. Average data for the last 7 years was inconclusive on this point, and the introduction of Localised Council Tax during 2013/14 highlights a reduced Taxbase due to the methodology of the Scheme. It was therefore agreed that the assumption was reasonable.
- 4.13 Attached at Appendix D is the financial modelling of a Year 1 decision followed by a 2 year Council Tax freeze. In view of the General Elections, there is some degree of uncertainty surrounding referendum limits which

would impact on the Council's ability to raise Council Tax in future years. However, in view of the current funding gaps, it was agreed that this model was the most appropriate to consider at this time.

5. Reasons for Recommendation

- 5.1 Effective financial management underpins all of the priorities for the Council.

6. Implications

Financial Implications

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- 6.1 There are no direct financial implications arising from this report.

Legal Implications

Name & Title: Chris Potter, Monitoring Officer

Tel & Email 01277 312860 / christopher.potter@brentwood.gov.uk

- 6.2 There are no direct legal implications arising from this report.

7. Appendices to this report

Appendix A – 14 January 2015 Finance and Resources Committee –
Medium Term Financial Plan Update.

Appendix B – Risk Assessments

Appendix C – Comparative Data on Reserve Levels

Appendix D – Council Tax Financial Model

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11 February 2015

Finance and Resources Committee

Medium Term Financial Plan Update

Report of: Jo-Anne Ireland, Acting Chief Executive

Wards Affected: None

This report is: Public

1. Executive Summary

- 1.1 The Medium Term Financial Plan (MTFP) sets out the key financial management principles and budget assumptions. It is then used as the framework for the detailed budget setting process to ensure that the Council's resources are managed effectively in order to meet its statutory responsibilities and deliver the priorities of the Council, over the medium term.
- 1.2 This report updates the MTFP following the report to this Committee on 14 January 2015, and also considers the feedback from the Audit & Scrutiny Committee held on 27 January 2015.

2. Recommendation(s)

- 2.1 **That Members note the updated position of the MTFP.**
- 2.2 **That an outline Strategy is prepared to support final budget proposals to Council, which provides information on how the funding gaps will be addressed.**
- 2.3 **That Finance and Resources support the proposal from Audit & Scrutiny for them to commence their Budget Review work in September to include a service review of existing budgets.**
- 2.4 **That Members consider the financial position of the Council when proposing a level of Council Tax for 2015/16.**

3. Introduction and Background

- 3.1 At its meeting on 14 January 2015, this Committee received information on initial funding and proposals for the MTFP. In accordance with the Budget and Policy Framework, these initial proposals were presented to Audit & Scrutiny for their consideration. This report will now consider and respond to the feedback from Audit & Scrutiny.
- 3.2 The report also updates the figures for changes made since January. These changes are a direct result of the on-going work by the Finance Team to review and refine the MTFP figures.

4. Issue, Options and Analysis of Options

- 4.1 Attached at Appendix A is a copy of the report from Audit & Scrutiny Committee outlining their feedback on the initial proposals.
- 4.2 Following a review of the points raised, this Committee is requested to note the following additional information/recommendations:

Area	Description	Audit & Scrutiny Feedback	Finance & Resources Response
Proposed Saving	Street Services – Reduction in Fuel Prices	Are future years' savings sustainable if this contract is not locked.	Volatility of the market means that this saving may not be sustainable. It is therefore proposed to adjust the MTFP to show this as a one year (2015/16) saving only.
Proposed Saving	Car Parks – Increased income from Lease Arrangement	Impact of any future development proposals may impact on these savings.	Noted – and this will be considered as part of any future business cases in this area.
Proposed Saving	Customer Services Transformation	More detailed financial targets requested to ensure delivery of savings could be monitored.	The savings for 2015/16 can be profiled as follows: Qtr 1 £20,000 Qtr 2 £40,000 Qtr 3 £70,000 Qtr 4 £100,000 (figures shown are cumulative).

Area	Description	Audit & Scrutiny Feedback	Finance & Resources Response
Proposed Saving	Lease Reviews	Question if any additional information was available to inform future year savings (which appear low).	This is an initial estimate as there is still work to be undertaken on a number of outstanding rent reviews/lease renewals. This figure is considered achievable although it is anticipated it may increase once the review work is complete.
Proposed Investment	Apprenticeships	Business case and clear resource requirement must be identified prior to appointment. Concerns raised re future employment opportunities and therefore recommended that a future review of this requirement is undertaken.	Noted. Any appointment must link to the overall efficiency reviews undertaken across all services.
Proposed Investment	Additional Events	Would like clarification on the specific events on offer before a final budget allocation is made. Evaluation of events will be key to future years funding support.	Additional events identified so far are: <ul style="list-style-type: none"> • Continuation of Lighting Up Shenfield (£5,500) • Royal Anglian March (£3,500) • Other events (to be confirmed) e.g. Heritage and Cultural Festival (£6,000).

Area	Description	Audit & Scrutiny Feedback	Finance & Resources Response
Proposed Investment	Election Marketing	Clarification which year this will target to ensure maximum impact and benefit to the Council.	This is planned expenditure for the May 2015 Elections.
Proposed Investment (CAPITAL)	Vehicle Replacement Programme	Detailed schedule to support the figures requested.	This is linked to the outcome(s) of the Waste Strategy as it will very much depend on how the service is delivered in the future.
Proposed Investment (CAPITAL)	Car Park Refurbishment and Upgrade	Accepted that this is part of a 2014/15 scheme – requested final cost estimates.	£115k was spent in 2014/15 on Barriers and Pay Stations. A further £15k has been allocated in 2015/16 for general upgrades including re-lining.
Proposed Investment (CAPITAL)	Home Repair Assistance Grants	Would request to see previous year spend patterns to verify this value.	2011/12 £20,595 2012/13 £37,953 2013/14 £7,760 2014/15 £9,780 (Est) It is therefore proposed to reduce this investment to £30,000 per annum.
Proposed Investment (CAPITAL)	Play Area Refurbishments	Work Programme requested to support the budget. Section 106 monies and locations should also be considered.	This is linked to the outcome(s) of a Leisure and Recreation Strategy which will inform future year budget requirements. This current budget reflects the minimum value needed to maintain our current facilities.

Area	Description	Audit & Scrutiny Feedback	Finance & Resources Response
Proposed Investment (CAPITAL)	Structural and Safety Works at the Multi Storey Car Park	Profile essential works and spend. Development study is essential prior to any large investment.	Works are profiled to ensure continued structural integrity of the building and to address health and safety issues.
Proposed Investment (CAPITAL)	ICT Strategy	More information needed and must be linked to the spend profile of the £500,000 budget within the Town Hall Project.	Works will include: <ul style="list-style-type: none"> • Software upgrade • Introduction of mobile devices • Server and hardware replacements • Update of Storage Area Network • Network/Cabling refresh • Update Disaster Recovery equipment.

4.3 In addition to the changes identified above, the following have also been identified as part of the on-going work on the budget preparation:

	2015/16 £	2016/17 £	2017/18 £	Comments
Reverse fuel savings	-	75,000	75,000	Following Audit & Scrutiny feedback – this saving for future years has been removed.
Revenue & Benefits Shared Services	146,000	(55,000)	(55,000)	Invest to Save Scheme – covered elsewhere on this Agenda.
Shenfield Free Parking during Crossrail Construction	78,000	78,000	-	This previously approved item was removed from the MTFP in error.
Increase in Capital Financing and Minimum Revenue Provision (MRP)	-	100,000	100,000	Adjusted figures due to accounting changes between HRA and General Fund.
Establishment Changes	87,973	(84,909)	(64,234)	One off costs for Finance Staff and other increments/pay awards.

Business Rates Retention Scheme	(248,720)	(236,170)	(236,170)	Increased income following submission of NNDR1 form to Central Government
TOTAL MOVEMENT	63,253	(123,079)	(180,404)	

Summary

4.4 The table below shows the impact of the new information on the overall funding position:-

Figures as at 14 January 2015:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Total Net Forecast Spend	9,997,927	10,092,549	10,899,087	11,082,531
Total Funding	(9,980,570)	(9,306,263)	(9,665,966)	(9,436,121)
Funding Gap / (Surplus)	17,357	786,286	1,233,121	1,646,410
Anticipated Savings	-	(210,000)	(360,000)	(410,000)
Proposed Developments	-	163,850	83,750	83,750
Net Funding Gap / (Surplus)	17,357	740,136	956,871	1,320,160
Working Balance bfwd	4,511,000	3,293,643	2,553,507	1,596,636
Funding Gap	17,357	740,136	956,871	1,320,160
Earmarked for WHW	1,200,000	-	-	-
Working Balance cfwd	3,293,643	2,553,507	1,596,636	276,476

Figures as at 11 February 2015:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Total Net Forecast Spend	9,997,927	10,617,493	11,092,046	11,218,160
Total Funding	(9,980,570)	(9,767,954)	(9,982,004)	(9,752,154)
Funding Gap / (Surplus)	17,357	849,539	1,110,042	1,466,006
Anticipated Savings	-	(210,000)	(360,000)	(410,000)
Proposed Developments	-	163,850	83,750	83,750
Net Funding Gap / (Surplus)	17,357	803,389	833,792	1,139,756
Working Balance bfwd	4,511,000	3,293,643	2,490,254	1,656,462
Funding Gap	17,357	803,389	833,792	1,139,756
Earmarked for WHW	1,200,000	-	-	-
Working Balance cfwd	3,293,643	2,490,254	1,656,462	516,706

- 4.5 The revised table above confirms that from 2015/16 onwards a budget gap begins to emerge as the Government Grant reductions continue. This gap could be widened further subject to the proposals emerging from the results of the General Election.

Next Steps

- 4.6 Following consideration of the information contained in this report, Members will need to finalise their proposals for the Budget and 2015/16 Council Tax. This will be presented to the dedicated Council meeting to be held on 4 March 2015.
- 4.7 The key areas that are currently under consideration are as follows:
- Department Service Reviews:
 - Alternative service delivery options
 - Fees and Charges
 - Income generation opportunities
 - Development of new strategies:
 - Property Acquisitions
 - Leisure and Recreation
 - Waste
 - Parking

- Governance Arrangements:
 - Review of current Committee arrangements

4.8 Whilst the Council will continue with its efforts to identify and secure additional income from which to support services, it is clear that the Council must also focus on managing expenditure levels and securing efficiencies.

4.9 In reaching a decision regarding the appropriate level of Council Tax for 2015/16, Members must also give consideration to the Council's financial position.

5. Reasons for Recommendation

5.1 Effective financial management underpins all of the priorities for the Council.

6. Implications

Financial Implications

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6.1 The financial implications are set out in the report.

Legal Implications

Name & Title: Chris Potter, Monitoring Officer

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6.2 There are no direct legal implications arising from this report.

7. Appendices to this report

A – Audit & Scrutiny Budget Feedback

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EARMARKED RESERVES

Earmarked Reserve	Balance as at 01/04/2014	Amounts In/(Out) 2014/15	Amounts In/(Out) 2015/16	Amounts In/(Out) 2016/17	Amounts In/(Out) 2017/18
Balance B/F		3,269,321	2,621,511	2,443,250	3,188,340
Asset Management	118,380	(104,190)			
Asset Valuations	17,500	(17,500)			
Brentwood Community Fund	70,002	(24,000)			
Brentwood Community Hospital	48,525				
Building Control	47,544				
CCTV	3,896				
Community Alarms	277,475	33,330	35,980	5,310	5,310
Community Rights	29,642	16,000			
Community Safety	9,500				
Duchess Of Kent/Nightingale	355,391	(10,740)	(10,030)	(10,220)	(10,220)
Economic Development	15,000				
Electoral Registration	43,000				
Funding Volatility	1,250,000		(478,211)		
Housing Benefit Subsidy Clawback	200,000	(200,000)			
Housing Development Fund.	100,000	50,000			
Neighbourhood Plan	21,000				
Organisational Transformation	482,742	(380,710)	(2,000)	100,000	100,000
Planning Delivery Grant	101,682		(50,000)		
Preventing Homelessness	15,000				
Public Consultation	10,000	(10,000)			
Single Status	30,000				
Street Scene Training	2,000				
Ward Based Budgets	21,041				
William Hunter Way	0	0	350,000	650,000	
Balance C/F	3,269,321	2,621,511	2,443,250	3,188,340	3,283,430

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4 March 2015

Ordinary Council (Budget)

**Medium Term Financial Plan (Housing Revenue Account)
2015/16 – 2017/18**

Report of: *Jo-Anne Ireland, Acting Chief Executive
Helen Gregory, Head of Housing Services*

Wards Affected: *All Wards*

This report is: *Public*

1. Executive Summary

- 1.1 The report considers the medium term Housing Revenue Account (HRA) budget.
- 1.2 The report includes results of the tenant consultation, the consideration of the Housing and Health Committee and the recommendation of the Finance & Resource Committee concerning the proposed level of rent increase for 2015/16.

2. Recommendation(s)

- 2.1 **That the Council approves a level of rent increase for 2015/16 based on the Government formula of CPI + 1% per week, for all rents as detailed in the report.**
- 2.2 **That the Council agrees to freeze the proposed Service Charges for 2015/16 for tenants, however any decrease to service charges, will be passed onto the tenant.**
- 2.3 **That the Council agrees that Leaseholder Service Charges be calculated in line with the current reconciliation policy.**
- 2.4 **That the Council agrees to applying the formula rent to all new tenancies from April 2015/16.**
- 2.5 **To approve the Section 151 Officer's Assurance Statement on the robustness of the estimates and adequacy of the reserves.**

3 Introduction and Background

- 3.1 The HRA is the budget operated by the Council which contains the income and expenditure of services connected with the Council's Housing Landlord role.
- 3.2 The main source of income into the HRA is the rental income from the properties let by the Council. These rents are calculated by reference to a Government formula which provides a target rent for the Council's properties to reach over a period of time.
- 3.3 From April 2012, a new system in Self Financing came into force for local authority social housing.
- 3.4 Self Financing represents a significant change in the way the Council's housing stock is funded. In principle, it gives more local accountability and responsibility for the operation of the Council's housing stock. The key elements of Self Financing are:
- The Government calculated a level of debt based on a 30 year assessment on expenditure, which was transferred to the authority to compensate the Government for the end of the subsidy scheme. For Brentwood, this was assessed at approximately £64.4million. We have borrowed to service this debt.
 - Councils have full responsibility for the maintenance and development of the housing stock and also the servicing of the debt.
 - A sum for depreciation of the stock is required to be included in the accounts.
- 3.5 **Inflation (CPI)** - The consumer prices index (CPI) shows a decrease in the forecast for CPI in 2014 of 0.4% and 2015 of 0.8%, compared to Budget 2014. For the purpose of the HRA, the following Budget Planning Assumptions have been used:

	2013	2014	2015	2016	2017
Autumn Statement 2014	2.6%	1.5%	1.2%	1.7%	2.0%
Budget 2014	2.6%	1.9%	2.0%	2.0%	2.0%
Autumn Statement 2013	2.6%	2.3%	2.1%	2.0%	2.0%

- 3.6 **Pay Awards (Inflation)** - National agreement has been reached for a 2 year pay award which will run from 1 January 2015 to 31 March 2016. For Brentwood Borough Council employees this results in a 2.2% increase from 1 January 2015. In addition to this, a one off non-consolidated payment of £150 per employee has been agreed. The terms of this payment are such that it is not added to the basic pay.
- 3.7 Historically, the Council has increased tenant service charges through a “rolling reconciliation” The HRA budget setting for 2012/13 by the Special Policy Committee in February 2012 [Minute 492 refers] implemented a new policy of service charge de-pooling approved by the former Environment Health and Housing Board in November 2011 [Minute 336 refers]. Typically, the tenant service charge setting formula includes a “rolling reconciliation” of estimated service chargeable expenditure with actual expenditure of the previous year. This method is similar to the method used to calculate Leaseholder Service Charges.
- 3.8 It has been proposed, for 2015/16 that the tenant service charges will not be increased. However the “rolling reconciliation” has been completed. Where there are service charges that have decreased, this decrease will be passed onto the tenant.
- 3.9 The reason behind the proposed freeze to any increase to service charges follows the recommendation that a further report be presented to the Housing & Health Committee providing details of the outcome of a planned review of the current service charges, which will then inform the 2016/17 charging levels for tenants.
- 3.10 Leaseholder service charges are levied by the Council, to recover the costs the Council incurs in providing services to a dwelling. The way in which the service charge is organised is set out in the tenant's lease or tenancy agreement. Therefore, as the service charges are stipulated in the leaseholder legal agreements the Council is recommended to calculate the charges based on the current policy and not freezing any increases.

4. Issues, Options and Analysis of Options

Projected Outturn 2014/15

- 4.1 The estimated forecast for the HRA Fund is a potential surplus £109,060 as at 31 March 2015. This compares to an anticipated £105k overspend as predicted at the half year review. The anticipated surplus will deliver a working balance at the end of the financial year of some £1.687 million and earmarked reserve balance of £1 million.

4.2 The table below outlines the key variance:

Service Pressures:

Budget	Difference £	Explanation
Responsive Repairs	296,700	Numerous long term void properties, have now been brought up to decent standard, plus urgent repairs to garages in order to make them safe.
Repairs & Maintenance	(140,230)	Schedule of Planned work has been delayed due to implementation of the new contract and ensuring void properties were brought up to decent home standard.
Supervision & Management	(60,000)	Severance Payment for 3 employees was made in 2014/15.
Charges for Services & Facilities	(23,150)	Increase to recover costs of providing services to leaseholders from prior year based on reconciliation.
RCCO	(290,000)	Smaller capital programmes have been delayed due to the extension of the larger capital programmes taking priority.
TOTAL	(216,680)	

Budget 2015/16 and Forecasts 2016/17 – 2017/18

4.3 The HRA budget for 2015/16 indicates a surplus of £234,770. The key variations from the 2014/15 projected outturn are:

- The budget for Repairs and Maintenance has reverted to the original budget of £2.6 million.
- Reduction in the sheltered salary costs due to all the Equal Pay claims being settled in 2014/15 plus the salary costs in Supervision & Management are based on the new team structures.
- Depreciation, that does hit the HRA bottom line, has increased by £131,740 based on slight increase in valuations as at 31st March 2014.
- Dwelling Rent Income increases by £357,860 taking into consideration the rent increase proposed within this report as well as the reduction in income due to the sales of council dwellings.

- The revenue contribution to the capital program has increased by £96,680. This is to assist in funding the development of Affordable Housing in the Borough.
- In 2016/17, one of the first HRA Self Financing Loans is due to be repaid. Repayment of the loan of £5 million will be funded from funds set aside.
- Anticipated savings of £145,000 (see para 4.4 and 4.5).

4.4 Services need to continue to drive through efficiencies and continually review their working practices and operations to try and make them as efficient as possible. This can be achieved by:

- Service reviews.
- Reviewing vacant posts.
- Identifying budget underspends.
- More strategic approaches regarding a review of service delivery models available.
- Review of current Committee arrangements.

4.5 Through the Council's Appraisal Service, the Corporate Leadership Board has agreed a total on-going target savings figure of £480,000. Of this amount £335,000 relates to General Fund and £145,000 relates to the HRA.

HRA Working Balance

4.6 The HRA working balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the Working Balance should provide a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure that are not covered within existing budgets. The Working Balance can also be used to act as a source of pump priming investment and/or to deliver "invest to save" projects.

4.7 General guidance and practice amongst other authorities varies. Options include % of total income, and a set value per Council Dwelling. However, individual risk assessments undertaken at a local level are considered best practice.

4.8 The Working Balance can be used to correct inflation assumptions, increase capital spend, repay debt early or to fund new HRA capital projects.

- 4.9 The average working balance for the period 2015/16 -2017/18 is £2.2 million.

Earmarked Reserves

- 4.10 In addition to the HRA Working Balance, the Council keeps two HRA Earmarked Reserves on the Balance Sheet. These Reserves are as follows:
- Carpets for Sheltered Schemes – the majority of this reserve will be utilised in 2014/15 to fund the purchase of the carpets in the recently refurbished sheltered scheme. Any remaining balance will be utilised in 2015/16.
 - Council Dwellings Investment Fund – this reserve receives an annual contribution from the HRA (as outlined in the Business Plan), to support future investment in the Council's housing stock. The anticipated balance in this reserve as at 31 March 2015 is £1 million. The MTFP assumes annual contributions of £500,000 per annum for the period 2015/16 – 2017/18.

Rent Levels

- 4.11 For the last five years, the Council has held a consultation process both with our tenants in general, and with Tenant Talkback in particular, so that the views of our tenants are taken into account in this important decision.
- 4.12 As part of the 2013 spending review the government announced that from 2015/16 social rents will rise by CPI + 1% each year for ten years. This is a change from the previous policy of RPI + 0.5% plus £2 to move to convergence. Convergence has now also been ceased.
- 4.13 Under the new rent policy, the main changes are:
- To maintain the concept of a formula rent for each property using the existing methodology;
 - To move from an annual weekly rent increase for social rents based on RPI + 0.5% + £2 to CPI + 1%. This to be for a period of ten years until 2024/25;
 - Rent convergence to end from 2014/15;
 - The 5% rent flexibility to be maintained, allowing those rents above formula to be brought within this over time;
 - The formula rent cap to be maintained and increased annually by CPI + 1.5%;
 - Affordable rents increases to be limited to CPI + 1% from RPI + 0.5%;
 - To allow and enable landlords to charge higher rents to tenants on incomes over £60,000, up to full market rent;

- Rent rebate subsidy limitation to continue as previously with the limit rent calculations amended to reflect the changes;
 - An assumption that rent will be set at the target rent level when a property is re-let.
- 4.14 The rents increase recommended for 2015/16 is in line with the Government's Rent Setting Policy, which is in accordance with the assumptions made in the current HRA Business Plan. Last year's rent model has been updated and new formula rents and transitional rents have been calculated based on the guidance from Government. The rents increase recommended for garages is also in line with the formula rent increase of CPI + 1%.
- 4.15 The rent year for 2015/16 will commence on 6 April 2015 and finish on 3 April 2016. It will be a 52 week rent year.
- 4.16 The Rent Model for 2015/16 uses the CPI figure at September 2014 of 1.2% plus 1%, resulting in a total uplift of 2.2%. This compares to an uplift of 3.70% for 2014/15.
- 4.17 The average proposed increase for 2015/16 is 2.2% and the average rent is £93.37. For 2014/15, the average increase was 5.9% and the average rent was £91.54. A more detailed analysis is attached at Appendix 1.
- 4.18 All rents have increased by 2.2% based on 2014/15 actual rent charged, therefore the highest cash increase, is £3.09 per week for two 4 bed houses in Westbury Road. The lowest cash increase is £1.10 per week at six bedsit properties in Drake House.
- 4.19 If the rents are charged at the model's current calculation then the gross income will be £12,351,370 (2014/15 £11,961,540). The allowance for properties empty ("Voids") between letting will be 1%, therefore the expected Void budget will be £123,510 (2014/15 £119,620). Overall, the 2015/16 Net Dwelling Budget will be £12,227,860 (2014/15 £11,841,920).

Tenant Service Charge Policy

- 4.20 The proposed rent increases do not include service charges – specific additional charges for tenants primarily of flat blocks, relating to the provision of specific services, such as heating, communal lighting and caretaking.
- 4.21 For 2015/16, it is proposed the tenant service charges are frozen, with a review on service charges to be carried out during 2015/16 in order to inform the charging policy from 2016/17 onwards.
- 4.22 Government guidance suggests service charges should not be increased by more than CPI + 1%, this guidance will be included in the service charge review.

2015/16 Rent Increase – Options

4.23 The impact of a one year limitation of the rent increase is a loss of income not just for the year in question, but, if the deficit is not made up in the following year, amounts to a year on year decrease in income over the course of the Business Plan. In the context of the financial commitments of the Business Plan, and the proposed scrapping of the move towards target rents from 2015, Members are advised to consider very carefully the financial impact on the Business Plan of pursuing a limitation to the rent increase.

4.24 Options to reduce the increase would result in the below alternatives:

- Having modelled a Rent Freeze for 2015/16 early indications are that this will create a deficit in the HRA for 2015/16 of some £194,310. Therefore, a rent freeze would result in the HRA making a deficit in 2015/16 onwards and therefore, the current proposed capital programme would have to be revisited, this deficit would also mean the council would not meet its commitment to repay back the self financing debt it borrowed in 2012/13.
- A 2% increase would bring the HRA into a surplus in 2015/16 and the Council would meet its commitment to repay the first loan due for the self financing settlement and the proposed capital programme can be funded. However, the 2% increase does mean that the surplus for the HRA in 2016/17 is rather volatile as it is so low.

4.25 The table below shows the annual income to the HRA based on the different increases, it also shows the difference between the proposed increased and the government guidance of 2.2%:

	RPI (2.8%) £	CPI (2.2%) £	0% £	2% £
Annual Income	(12,397,900)	(12,227,860)	(11,964,640)	(12,203,930)
Difference (Gain)/Loss	(170,040)	0	263,220	23,930

4.26 Taking account the above annual income, the proposed (Surplus)/Deficit for the HRA MTFP are:

	2015/16 £	2016/17 £	2017/18 £
RPI (2.8%)	(242,970)	(55,160)	(300,800)
CPI (2.2%)	(89,770)	(48,950)	(113,880)
0%	194,310	242,860	185,830

HRA Business Plan

- 4.27 The HRA Business Plan has been updated with the recommendations proposed in this report. Sensitivity Analysis has been carried out to ensure the robustness of the 30 year Plan. A summary is attached in Appendix 2.
- 4.28 The following assumptions have been taken into account when considering the revised Business Plan:
- The financial viability of the HRA.
 - Delivering a repairs capital programme of £3m for 2015/16 onwards.
 - Budget provision for repayment of HRA self financing debt of £64.166m.
 - Development fund for new homes £500k per annum.
 - No allowance has been made for growth bids.
 - Affordability for tenants.
 - Increase to rental income and expenditure at an average of 2%.

Section 151 Officer's Assurance

- 4.29 Section 25 of the Local Government Act 2003 requires that, when the Council is considering next year's budget and rent levels, the Council's Section 151 Officer (Acting Chief Executive) must report on:
- the robustness of the estimates, and
 - the adequacy of the proposed financial reserves.
- 4.30 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.
- 4.31 The budget includes planned contributions to the reserves which will provide resources for investment and debt repayment requirements.

5. Reasons for Recommendation

- 5.1 Effective financial management underpins all of the priorities for the Council.
- 5.2 The Council is required to compile a budget which collates all the income and expenditure relating to the Council's housing stock. The Council is also required to agree the rent levels and notify tenants of any increases.

6. Consultation

- 6.1 A consultation meeting for tenants on the proposed rent increase was held on 25 November 2014 with the Tenant Talkback group.
- 6.2 In principle Tenants Talkback group agreed to rent setting at CPI plus 1%; tenants recognized the need to continue to invest in the homes and services.
- 6.3 In addition there was an acknowledgement that the CPI increase was a slight reduction compared to RPI formula previously used to set rents.

7. Reference to Corporate Plan

- 7.1 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2015/16.

8. Implications

Financial Implications

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- 8.1 The financial implications are set out in the report.

Legal Implications

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- 8.2 The Council has a legal obligation to produce a balanced HRA budget and to set the Housing Rent levels for 2015/16.

Asset Management Implication

- 8.3 The rent income forms the major income stream to support the management of the Council's HRA assets. The detail of the HRA Asset Management Strategy is contained within the Housing Revenue Account Business Plan.

Equality and Diversity Implications

- 8.4 Provision of the Council's housing stock supports the Borough's Housing Strategy to maximise the available provision for residents in housing need, supporting equality of housing opportunities and life chances.

9. Appendices to this report

Appendix 1 – Analysis of Rent Increases/Decreases for 2015/16
(excluding Service Charges)

Appendix 2 – HRA 30 year Business Plan Summary

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Appendix 1

Analysis of Rent Increases / Decreases for 2015/16 (Excluding Service Charges)

The rent model has taken CPI for September 2014 as 1.20%. Applying the formula rent calculation from the Rent Setting guidance, an average rent increase of £2.01 per week, or 2.2% is proposed for Brentwood Borough Council tenants. Further details are as follows:

Flats

No of Bedrooms	Average Rent £	Average increase £	Average Increase %	No of Properties
Bedsit	65.50	1.41	2.2	74
1	79.17	1.70	2.2	528
2	86.45	1.86	2.2	509
3	96.36	2.07	2.2	59
Total Average	82.34	1.77	2.2	1170

Houses/Bungalows

No of Bedrooms	Average Rent £	Average increase £	Average Increase %	No of Properties
Bedsit	70.72	1.52	2.2	52
1	87.91	1.89	2.2	242
2	100.81	2.17	2.2	398
3	112.07	2.41	2.2	631
4	135.12	2.91	2.2	15
Total Average	103.02	2.22	2.2	1338

Appendix 2
HRA Business Plan Summary

Year	15/16	16/17	17/18	18/19	19/20	20-25	25-30	30-35	35-40	40-45	TOTAL
Details of Expenditure	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Repairs and Maintenance	2,670	2,670	2,670	2,737	2,805	15,114	17,100	19,347	21,889	24,765	111,766
General Management	1,627	1,624	1,636	1,669	1,690	8,785	9,376	10,015	10,709	11,461	58,591
Special Services	1,125	1,135	1,146	1,168	1,189	6,274	6,865	7,523	8,253	9,067	43,746
Rent, Rates, Taxes	190	194	198	204	209	1,126	1,274	1,442	1,631	1,845	8,314
Depreciation and Impairment	2,184	2,184	2,184	2,184	2,184	10,920	10,920	10,920	10,920	10,920	65,520
Provision for Bad Debts	85	85	85	44	46	255	304	361	429	510	2,205
Loan Repayment		5,000				5,000	10,000	15,000	15,000	14,166	64,166
Anticipated savings	(145)	(145)	(145)	(145)	(145)	(725)	(725)	(725)	(725)	(725)	(4,350)
Total Expenditure	7,736	12,747	7,774	7,861	7,978	46,749	55,113	63,882	68,106	72,011	349,958
Capital Charges Reversal	0	(5,000)	0	0	0	(5,000)	(10,000)	(15,000)	(15,000)	(14,166)	(64,166)
Interest on Loan	2,062	2,062	2,000	2,000	2,000	9,882	9,156	7,645	5,149	2,589	44,545
Interest on Balances	(72)	(64)	(60)	(76)	(76)	(380)	(380)	(380)	(380)	(380)	(2,248)
Net Expenditure	9,726	9,745	9,714	9,785	9,902	51,251	53,889	56,147	57,875	60,054	328,089
Details of Income											
Dwelling Rents (net)	(12,228)	(12,472)	(12,722)	(13,316)	(13,790)	(76,674)	(91,327)	(108,780)	(129,568)	(154,329)	(625,208)
Non Dwelling Rents (net)	(532)	(539)	(546)	(566)	(585)	(3,249)	(3,859)	(4,582)	(5,442)	(6,463)	(26,363)
Charges for Services	(652)	(664)	(675)	(700)	(723)	(3,988)	(4,691)	(5,520)	(6,494)	(7,641)	(31,748)
Contribution Towards Exp	(231)	(231)	(231)	(233)	(236)	(1,228)	(1,318)	(1,424)	(1,551)	(1,701)	(8,383)
Net Cost of HRA Services	(3,917)	(4,161)	(4,460)	(5,030)	(5,432)	(33,888)	(47,305)	(64,159)	(85,180)	(110,081)	(363,614)
CDC	496	492	496	506	515	2,713	2,963	3,241	3,550	3,893	18,864
Pension Interest Cost	300	300	300	315	331	1,919	2,449	3,126	3,989	5,092	18,121
Net Expenditure	(3,121)	(3,369)	(3,664)	(4,209)	(4,587)	(29,256)	(41,893)	(57,792)	(77,641)	(101,096)	(326,628)
Investment Fund	500	500	500	500	500	2,500	2,500	2,500	2,500	2,500	15,000
Loan Repayment	1,500	1,350	1,500	1,500	1,500	10,500	12,500	12,500	12,599	12,665	68,114
Capital Program Funding	885	1,324	1,405	1,100	1,100	5,500	5,500	5,500	5,500	5,500	33,314
(Surplus)/Deficit	(236)	(195)	(259)	(1,109)	(1,487)	(10,756)	(21,393)	(37,292)	(57,042)	(80,431)	(210,200)
Working Balance b/f	1,688	1,924	2,119	2,378	3,487	4,974	15,730	37,123	74,415	131,457	211,888
Accumulated Surplus	1,924	2,119	2,378	3,487	4,974	15,730	37,123	74,415	131,457	211,888	

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4 March 2015

Ordinary Council (Budget)

Treasury Management Strategy Statement 2015/16

Report of: *Jo-Anne Ireland, Acting Chief Executive*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 The report outlines the Treasury Management Strategy for 2015/16 and associated Prudential Indicators.

2. Recommendation(s)

- 2.1 That the Treasury Management Strategy and Prudential Indicators for 2015/16 – 2017/18 be approved.**
- 2.2 That the Minimum Revenue Provision (MRP) Statement be approved.**
- 2.3 That the framework and criteria for determining counterparties and the Schedule of Approved Bodies for Investment be approved.**

3. Introduction and Background

- 3.1 CIPFA defines Treasury Management as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 3.2 The main role of the Treasury Management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed and surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

- 3.3 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.4 The Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve and monitor a basic range of prudential indicators/limits.
- 3.5 The Local Government Act 2003 and supporting regulations require the Council to 'have regard' to the CIPFA Prudential Code and to set Prudential Indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 3.6 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to Council:
- **Treasury Management Strategy and Prudential Indicators** - this report covers:
 - the capital expenditure plans (including prudential indicators);
 - a Minimum Revenue Provision (MRP) policy (which details how capital expenditure is charged to revenue over time);
 - the Treasury Management Strategy, which details how the investments and borrowings are managed overall, including treasury indicators; and
 - an Investment Strategy, which sets the parameters on how investments are to be managed on a day to day basis.
 - **A Mid-Year Treasury Management Report** - this updates Members on Treasury Management performance for the first half of the financial year.
 - **An Annual Treasury Report** - this details the full year treasury activity and performance.
- 3.7 The Council uses Capita Asset Services as its external Treasury Management Advisor and much of the content of this report closely follows its advice. However, the Council recognises that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

4. Issue, Options and Analysis of Options

Capital expenditure plans and Prudential Indicators 2015/16-2017/18

4.1 The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This capital expenditure will need to take account of:

- Corporate Plan Priorities
- Stewardship of Assets
- Value for Money
- Prudence and Sustainability
- Affordability
- Practicality
- Revenue Consequences

4.2 This expenditure is financed by resources such as capital receipts and grants. Any remaining expenditure which cannot be immediately funded from other resources will result in a funding borrowing need.

	2013/14 Actual £m	2014/15 Projected £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Non HRA	1.493	2.489	5.056	1.529	0.660
HRA	2.951	2.860	4.535	5.154	4.555
Total Expenditure	4.444	5.349	9.591	6.683	5.215
Financed by:					
Capital Receipts Grants and contributions	1.875	2.182	4.949	3.126	2.521
HRA Business Plan	2.569	2.046	2.157	2.157	2.184
Borrowing requirement	0	1.121	2.485	1.400	0.510

4.3 Whilst interest rates are low, the Council will seek to utilise internal borrowing to meet the capital expenditure. However, it is likely that there will be a borrowing requirement to finance the anticipated Capital Programme for the next 3 years. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

4.4 Long term borrowing rates are currently around 3.4% and short term investment rates at around 0.50%. Where possible it makes more economic sense to utilise cash balances/capital receipts to fund the Capital Programme, than to borrow.

The Council's Borrowing Need (the Capital Financing Requirement)

- 4.5 The Council's Capital Financing Requirement (CFR) shows the underlying need of the Council to borrow for capital purposes as determined from the balance sheet. Capital expenditure which has not immediately been paid for, will increase the CFR.
- 4.6 The Council is currently maintaining an under-borrowed position. This means that there is a shortfall between the amount of borrowing required to fund capital expenditure and the actual level of external borrowing taken out. The difference is known as "internal borrowing" and represents temporary funding of capital expenditure from the Council's reserves, balances and working capital. This position is a cheaper option than borrowing and holding funds as investments whilst interest rates remain low.
- 4.7 The CFR also includes any other long term liabilities, which are currently all finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to borrow separately for these schemes. The Council currently has £0.048m of such schemes within the CFR.
- 4.8 All borrowing has been factored into the prudential indicators. The Council is asked to approve the CFR projections below:

	2014/15 Projected £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
CFR – Non Housing	9.060	11.490	12.764	13.064
CFR – Housing	69.847	69.847	69.847	69.847
Total CFR	78.907	81.337	82.611	82.911
Movement in CFR	1.104	2.430	1.274	0.300
Net financing need for the year	1.121	2.486	1.400	0.510
Less MRP	0.017	0.056	0.126	0.210
Movement in CFR	1.104	2.430	1.274	0.300

The Use of the Council's Resources and the Investment Position

- 4.9 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). End of year investments are currently estimated as follows:

	2013/14 Actual £m	2014/15 Projected £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Investments	2.160	3.900	0	0	0

- 4.10 The Council produces a balanced revenue budget and will have sufficient cash to pay for the cost of services. In addition, cash balances and reserves will be held on the Balance Sheet and these resources provide the funding for internal borrowing which is being maintained by the Council. The policy regarding internal borrowing will be kept under review to determine if any additional external borrowing is required.

Affordability Prudential Indicators

- 4.11 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

- 4.12 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2014/15 Original	2014/15 Projected	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	0.64%	1.88%	3.15%	3.50%	4.74%
HRA	0.88%	16.13%	16.10%	16.10%	16.10%

- 4.13 The ratio for the financing costs of Non- HRA cost of capital are increasing over the next few years as a result of the latest capital expenditure plans and the planned increase in borrowing.
- 4.14 The HRA had increased significantly as a result of HRA Reform. HRA Reform resulted in the Council taking on £64 million of loans and incurring interest costs, rather than making a payment into the National Subsidy System as it had previously. As the indicator above measures borrowing costs as a percentage of HRA income, it has increased significantly as a direct result of the Subsidy Reforms.
- 4.15 The estimates of financing costs include current commitments and the proposals in this report.

Estimates of the incremental impact of capital investment decisions on Council Tax

- 4.16 This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2014/15 Original	2014/15 Projected	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
All borrowing has been factored into the prudential indicators. Council Tax – Band D	£0.07	£0.00	£1.26	£5.24	£8.40

- 4.17 The additional cost to Council Tax from 2015/16 relates to the potential borrowing requirement for the Capital Programme. As capital expenditure plans expect to be borrow in future years, the revenue cost of planned borrowing is shown in relation to the council tax base.

Estimates of the incremental impact of capital investment decisions on Housing Rent levels

- 4.18 This indicator identifies the trend in the cost of proposed changes in the Housing Capital Programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

	2014/15 Original	2014/15 Projected	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly Housing Rent levels	£4.70	£0.00	£0.00	£0.00	£0.00

- 4.19 The additional cost to HRA rents reflects any increase in revenue costs due to borrowing for the HRA capital programme. As the HRA capital expenditure is expected to be fully funded from resources such as grants, revenue contributions and capital receipts the increase in costs is calculated at nil.

Minimum Revenue Provision (MRP) Statement

- 4.20 The Council is required to charge an element of the accumulated General Fund capital spend each year (measured through the CFR) to revenue (the minimum revenue provision or "MRP"), although it is allowed to make additional voluntary payments if required (voluntary revenue provision – "VRP").
- 4.21 The Department for Communities and Local Government (DCLG) Regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, so long as there is prudent provision.

- 4.22 Former DCLG regulations can be used to calculate MRP on capital expenditure incurred before 1st April 2008. These regulations allow for a number of adjustments to be made to both the CFR amount upon which MRP is to be calculated and the resulting MRP amount. For Brentwood these adjustments result in an MRP of nil. In addition to the above calculation, it is also necessary to calculate a MRP for finance leases. Finance leases are akin to borrowing, and the borrowing liability is reduced, over the asset life, by repayments each year. Regulations allow for such repayments to be used as a proxy for MRP.
- 4.23 There is currently no MRP charge required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact on the HRA budget, regulations allow the Major Repairs Allowance (MRA) to be used as a proxy for depreciation for the first five years, which will neutralise any revenue impact. The HRA business plan will need to fund this depreciation over the life of the assets.
- 4.24 To reflect the above the Council is recommended to approve the following MRP policy:
- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be to use existing practice which is that outlined in former DCLG regulations (Option 1).
 - For all unsupported borrowing (including finance leases) from 1 April 2008 the MRP policy will be to use the asset life method (Option 3).

Borrowing Limits

- 4.25 The capital expenditure plans previously set out within this report provide details of the service activity of the Council. The Treasury Management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.
- 4.26 The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised in the following table. This shows the actual external debt excluding leases (the treasury management operations), against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

	2013/14 Actual £m	2014/15 Projected £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
External Debt:					
Debt at 1 April	70.666	66.166	67.287	69.772	71.172
Expected change in Debt	-4.500	1.121	2.485	1.400	-4.490
Debt at 31 March	66.166	67.287	69.772	71.172	66.682
The Capital Financing Requirement	77.804	78.907	81.337	82.611	82.911
Less: Finance lease liabilities	-0.048	-0.031	-0.013	0	0
Borrowing Requirement	77.756	78.876	81.324	92.572	82.911
Under / (over) borrowing	11.590	11.583	11.552	11.439	16.229

Total investments at 31 March:					
Investments	2.000	3.900	0	0	0
Investment change	-0.160	1.900	-3.900	0	0

Net Debt	64.166	63.388	74.774	81.193	78.703
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- 4.27 Within the prudential indicators there are a number of key limits to ensure that the Council operates its treasury activities within well defined limits. One of the limits required, is to ensure that the Council's gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This control ensures that borrowing is not undertaken for revenue purposes.
- 4.28 The Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Limits to borrowing activity - The Operational Boundary

4.29 External debt is not normally expected to exceed this limit. In most cases, this would be a similar figure to the CFR but may be higher or lower depending on the actual levels of debt.

	2014/15 Projected	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	£83m	£85m	£92m	£96m
Other long term liabilities	£ 2m	£ 2m	£ 2m	£ 2m
Total	£85m	£87m	£94m	£98m

The Authorised Limit for External Debt

4.30 This indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2014/15	2015/16	2016/17	2017/18
Debt	£84m	£87m	£94m	£98m
Other long term liabilities	£ 3m	£ 3m	£ 3m	£ 3m
Total	£87m	£90m	£97m	£101m

4.31 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

	2014/15	2015/16	2016/17	2017/18
HRA Debt Limit	£73m	£73m	£73m	£73m

Interest Rate Projections and economic factors

- 4.32 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table summarise the current Capita Asset Services central view for the bank rate and PWLB rates.

Annual Average	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

- 4.33 The UK GDP growth surged during 2013 and the first half of 2014. It has subsided somewhat but still remains strong by UK standards and is expected to continue into 2015 and 2016. Wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015.

The US, the biggest world economy, has generated growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 brought a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece.
- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth.
- Investment returns are likely to remain relatively low during 2015/16 and beyond.
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

Borrowing strategy

4.34 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high. A schedule of the loans held by the Council as at 31 January 2015 is shown below:

Repayment Date	Period of Loan (Years)	Type of Loan	Fixed/Variable	Interest Rate	Amount Outstanding £
PWLB LOANS:					
28/03/2017	5	Maturity	Fixed	1.240%	5,000,000
28/03/2022	10	Maturity	Fixed	2.400%	5,000,000
28/03/2027	15	Maturity	Fixed	3.010%	10,000,000
28/03/2032	20	Maturity	Fixed	3.300%	15,000,000
08/01/2028	25	Maturity	Fixed	4.875%	400,000
28/03/2037	25	Maturity	Fixed	3.440%	15,000,000
28/03/2042	30	Maturity	Fixed	3.500%	14,166,000
24/02/2055	60	Maturity	Fixed	8.875%	800,000
30/04/2055	60	Maturity	Fixed	8.875%	800,000
TOTAL					66,166,000

4.35 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Treasury Management Limits on Activity

4.36 There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. These are:

- 1) **Upper limits on variable interest rate exposure** - this identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- 2) **Upper limits on fixed interest rate exposure** - this is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- 3) **Maturity structure of borrowing** - these gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	2015/16	2016/17	2017/18
Interest rate exposures:	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Limits on fixed interest rates:			
• Debt only	100%	100%	100%
• Investments only	100%	100%	100%
Limits on variable interest rates			
• Debt only	20%	20%	20%
• Investments only	100%	100%	100%
Maturity structure of borrowing 2014/15:			
	Lower	Upper	
Under 12 months	0%	20%	
12 months to 2 years	0%	20%	
2 years to 5 years	0%	20%	
5 years to 10 years	0%	20%	
10 years and above	0%	90%	

Policy on borrowing in advance of need

4.37 The Council will not borrow more than or in advance of its needs purely in order to seek to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Debt rescheduling

4.38 The case for considering rescheduling is that as short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

4.39 The reasons for any rescheduling to take place would include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

4.40 Consideration could also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

4.41 In view of the demands of the capital programme and the expense of any debt resheduling it is unlikely there will be any rescheduling opportunities in the short term. As per the table in para 4.33, the Council's debt has been borrowed at fixed interest rates with an average of 3.25%.

Investment Strategy

Changes to credit rating methodology

4.42 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

4.43 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level

of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

- 4.44 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.
- 4.45 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.
- 4.46 As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that we have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, we will continue to utilise CDS prices as an overlay to ratings in our new methodology.

Investment policy

- 4.47 The Council's investment policy has regard to the DCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
- 4.48 In order to minimise the risk to investments, the Council has set out the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies.
- 4.49 Using the Capita Asset Services ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 4.50 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.51 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

Investment Counterparty Framework

4.52 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.53 The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Strategy and Policy Board for approval as necessary.

4.54 Credit rating information is supplied by Capita Asset Services on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

4.55 The criteria for providing a pool of high quality investment counterparties are:

- Banks 1 - Good credit quality. The Council will only use UK banks which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - i. Short term - F1
 - ii. Long term – A
- Banks 2 – Part nationalised UK banks (Lloyds Banking Group and Royal Bank of Scotland). These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker (currently Lloyds Bank) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Building societies - The Council will use all societies which meet the ratings for the banks outlined above

- Money market funds – AAA
- UK Government (including gilts and the DMADF)
- Local Authorities, Parish Councils etc
- Supranational institutions

4.56 No funds will be placed outside the UK.

4.57 Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

4.58 The time and monetary limits for institutions on the Council's counterparty list are as follows:

	Fitch Long Term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 Higher Quality: Credit Suisse International HSBC Bank plc MBNA Bank plc MBNA Europe Bank Standard Chartered Bank UBS Ltd	F1, A	£3m	1yr
Banks 2 Part Nationalised: Bank of Scotland plc Lloyds Bank Royal Bank of Scotland National Westminster Bank	N/A	£5m £3m £5m £3m	1yr 1yr 1yr 1yr
UK Building Societies: Nationwide Building Society	A	£5m	1yr
Banks 3 Councils Banker (not meeting Banks 1): Lloyds Bank	N/A	£3m	1 day
Debt Management Account Deposit Facility (DMADF)	AAA	Unlimited	6 months
Local Authorities	N/A	£5m	1yr
Money Markey Funds	AAA	£3m	1yr

- 4.59 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 4.60 Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:
- 2014/15 0.50%
 - 2015/16 0.75%
 - 2016/17 1.25%
 - 2017/18 2.00%
- 4.61 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if forecasts for the rate of fall of unemployment were to prove to be too optimistic.
- 4.62 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:
- 2014/15 0.40%
 - 2015/16 0.50%
 - 2016/17 1.00%
 - 2017/18 1.25%
- 4.63 The Council has no investments with Icelandic banks.

4.64 A schedule of the investments held by the Council as at 31 January 2015, is shown below:

Date Invested	Date to be Repaid	Invested With	Investment Amount £	Interest Rate
16/05/14	02/02/15	Nationwide	2,000,000	0.69%
01/07/14	19/01/15	Nationwide	2,500,000	0.65%
05/11/14	05/02/15	Bank of Scotland	1,000,000	0.57%
01/12/14	02/03/15	Bank of Scotland	1,000,000	0.57%
28/08/14	N/A	Bank of Scotland	600,000	0.40%
24/12/14	N/A	Bank of Scotland	2,000,000	0.40%
19/06/14	N/A	Royal Bank of Scotland	22,000	0.25%
21/10/14	N/A	Royal Bank of Scotland	100,000	0.25%
28/10/14	N/A	Royal Bank of Scotland	150,000	0.25%
14/11/14	N/A	Royal Bank of Scotland	150,000	0.25%
21/11/14	N/A	Royal Bank of Scotland	250,000	0.25%
26/11/14	N/A	Royal Bank of Scotland	150,000	0.25%
01/12/14	N/A	Royal Bank of Scotland	200,000	0.25%
17/12/14	N/A	Royal Bank of Scotland	100,000	0.25%
23/12/14	N/A	Royal Bank of Scotland	300,000	0.25%
TOTAL			10,522,000	

Treasury Management limit on activity - total principal funds invested for greater than 364 days

4.65 These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

4.66 The Council is asked to approve the treasury indicator and limit:

Maximum principal sums invested > 364 days			
£m	2015/16	2016/17	2017/18
Principal sums invested > 364 days	£5m	£5m	£5m

5. Reasons for Recommendation

5.1 The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce Prudential Indicators.

6. Consultation

6.1 None.

7. References to Corporate Plan

- 7.1 Effective financial management underpins all of the priorities contained within the Corporate Plan.

8. Implications

Financial Implications

Name & Title: Jo-Anne Ireland, Acting Chief Executive

Tel & Email 01277 312712 / jo-anne.ireland@brentwood.gov.uk

- 8.1 The financial implications are fully outlined in the report.

Legal Implications

Name & Title: Chris Potter, Monitoring Officer and Head of Support Services

Tel & Email 01277 312743 / christopher.potter@brentwood.gov.uk

- 8.2 There are no direct legal implications arising from this report.

Other Implications

- 8.3 The Council manages the risks associated with borrowing and investments with the assistance of the Treasury Management Advisors; Capita Asset Services Treasury Services.

9. Background Papers

- 9.1 29 October 2014 – Policy and Resources Committee Treasury Management Mid Year Review 2014/15.
- 9.2 12 February 2014 – Strategy and Policy Board Treasury Management Strategy Statement 2014/15.

10. Appendices to this report

None.

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4 March 2015

Ordinary Council (Budget)

Capital Programme 2015/16 – 2017/18

Report of: *Jo-Anne Ireland, Acting Chief Executive*

Wards Affected: *All Wards*

This report is: *Public*

1. Executive Summary

- 1.1 This report considers the Capital Programme and supporting Strategy for the period 2015/16 – 2017/18.

2. Recommendation(s)

- 2.1 To approve the proposed Capital Programme and Funding totalling £21.5 million, for 2015/16 – 2017/18.**

3. Introduction and Background

- 3.1 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, for example, houses, vehicles or buildings. There is a clear distinction between capital expenditure and revenue expenditure with the latter relating to spend or investment on the day to day running of services.
- 3.2 The Capital Programme sets out the medium term investment proposals, together with the identified sources of funding. The Capital Programme supports the Capital Strategy which is aligned to the priorities of the Council.
- 3.3 The key priorities for the Council outlined in the Corporate Plan for the period 2013 – 2016 are:
- **Street Scene and Environment** - Brentwood is a clean, green and pleasant Borough. Maintaining and improving this involves not just the Council but also our communities and many partners. We will find new ways of working with our partners and communities, and

improve the way we play our part, to enhance the environment and attractiveness of the Borough.

- **Localism** – We believe that through bringing communities together and working effectively in collaboration with a range of groups and organizations we can better ensure the future wellbeing of our Borough. We will work with local businesses, community groups and the voluntary sector to develop projects that will enhance and support the local community.
- **A Prosperous Borough** – A new Local Development Plan will shape the way our Borough will change over the next fifteen years. We will work hard to get the best outcome and achieve a good balance for residents, business and the economy in a way that celebrate Brentwood's unique history and quality of life; both within the Borough and influencing the outcome of regional developments that will affect Brentwood residents.
- **Housing, Health and Wellbeing** – Current legislative reforms will lead to significant changes to the way the Council supports people in housing need and in receipt of state benefits. We will develop different ways of working, both in the way we deliver services and with the voluntary sector, to make sure that the more vulnerable residents in Brentwood are protected, and help goes to those most in need of it.
- **A Safe Borough**- In this era of austerity, it has never been more important to work in partnership to tackle the Borough's community safety issues. As the new Police and Crime Commissioners begin their work, we will involve ourselves in new ways of working and continue to work with Safer Brentwood (the statutory Community Safety Partnership for Brentwood). With our partners and communities, we will further reduce incidents of crime and anti-social behaviour in the Borough.
- **A Modern Council** – Between 2013 and 2016 the way the council looks and works will be transformed. We will make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers money is spent even more wisely. We will become more entrepreneurial. We will have services delivered by those best placed to deliver excellence and value for money, whilst holding onto and enhancing our role, duties and powers as Local Council and Community Leader.

4. Issue, Options and Analysis of Options

Capital Strategy

4.1 The Capital Strategy provides the framework within which the Council will manage the use of its available capital resources to support the acquisition of new and/or enhance the existing capital asset infrastructure.

4.2 The key objectives of the Capital Strategy are to provide focus for the following:

- **Management of Assets** - to maximise the effective use of the Council's wide range of assets ensuring value for money in all areas of acquisition, management, disposal, repair and maintenance in the provision of the Council's services.
- **Financial Resources** - to maximise all potential funding opportunities where these are consistent with the Council's key priorities and service delivery requirements.
- **Project Appraisal** - to ensure that all project proposals are developed in line with the Council's key priorities demonstrating an effective business need, contribution to operational efficiency and sustainability, and value for money.
- **Prioritisation** - to ensure the effective prioritisation of capital schemes in line with agreed spending priorities and available resources.
- **Procurement** - to maximise value for money achieved in all aspects of procurement relating to the delivery of the capital programme.
- **Programme Management** - to maintain robust procedures for managing and monitoring the agreed capital programme to ensure approved schemes are delivered on time, within agreed resources and in accordance with their programmes, output targets and value for money.

Funding the Capital Programme

4.3 The key sources of funding for the Capital Programme are as follows:

- **Prudential Borrowing** – the Council has freedom to undertake borrowing to finance capital expenditure so long as it is prudent, affordable and sustainable. The Council must consider and meet the whole costs associated with borrowing and be mindful that the interest charges in particular must be funded from the General Fund.

- **Capital Receipts** – capital receipts arising from the sale of assets contribute to resources available to fund the Capital Programme. As there is a significant degree of uncertainty in the level and timing of the capital receipts, a pre-requisite for managing capital investment is that these are kept under close review to minimise the risk of possible exposure to unplanned borrowing with its potential adverse impact on revenue.
- **Capital Grants** - the Council receives a variety of external funding, normally in the form of capital grants, which are either secured via a bidding process or are automatically allocated through Government departments or agencies for specific purposes.
- **Section 106 Contributions** – under Section 106 of the Town and Country Planning Act Local Authorities are able to negotiate financial contributions from developers towards the cost of the provision of off-site infrastructure, facilities and/or services. These contributions need to be reasonably related to the development which is the subject of the planning application. Where applicable these will be applied to support capital investment.
- **Community Infrastructure Levy (CIL)** – CIL will require an adopted Infrastructure Delivery Plan (IDP), through the Local Development Plan process. The earliest date for CIL implementation is April 2016 in order to meet consultation and approval processes, and so any capital expenditure related to CIL cannot be programmed until then. During 2015/16, the Council will work with Health and Education partners to draft a capital programme. Once CIL is implemented, it will be the responsibility of the Council, as the CIL Collection Authority to programme and spend income received to deliver the IDP.
- **Leasing** – Local Authorities may fund capital expenditure by way of a lease, either by a finance lease, where all the risks and rewards of ownership are transferred to the lessee, or an operating lease, which is effectively a hire purchase agreement, where ownership of the asset stays with the lessor. Where appropriate, leasing is considered as a funding option and as with borrowing the revenue consequences need to be considered. It is important to ensure that there is adequate revenue budgetary provision to meet any future leasing liabilities. In addition the International Financial Reporting Requirements (IFRS) are such that most leases are classified as finance leases and therefore treated as capital expenditure.

Housing Revenue Account

- 4.4 In previous years 75% of proceeds from Right-to-Buy (RTB) sale of Council Dwellings were paid into a national pool run by the Department of Communities and Local Government (DCLG). The receipts were then redistributed to those authorities with the greatest housing needs as identified by regional housing boards. The remaining receipts were used to fund capital works in the authority.
- 4.5 On 2nd April 2012, the pooling arrangement changed. Ministers confirmed delivering the new homes would be through Local Authorities retaining receipts to spend in their area.
- 4.6 Brentwood entered into an agreement with the Secretary of State for Communities and Local Government to retain the additional RTB receipts on 26th June 2012.
- 4.7 The key principles of the agreement are as follows:
- The Secretary of State agrees to allow the authority to retain additional RTB receipts to fund the provision of replacement stock.
 - The Secretary of State will allow the authority three years (from commencement of agreement) to invest the receipts before asking for the money to be returned if they have not been invested.
 - The agreement does not require a local authority to complete the building of a home within 3 years.
 - The agreement requires an authority to have incurred expenditure that is no more than 30% of the total spends on replacement stock.
 - Replacement could be one of 3 ways – newly built Council homes, acquiring houses on the open market or provision of grants to Housing Associations to build new homes.
 - Brentwood Council agrees to return any unused receipts to the Secretary of State with Interest.

4.8 A summary of the Retained Receipts for 2014/15 is as follows:

2014/15	April - Jun	Jul - Sep	Oct - Dec	Jan - March	Total
Number of RTBs	5	3	3	3	14
Total Value	338,640	296,000	292,900	294,450	1,221,990
Average Value	67,728	98,667	97,633	95,150	362,178
Value of RTB Retained	98,287	98,147	103,924	166,112	466,470
Expenditure required	327,623	327,157	346,413	553,707	1,554,900
Date to be spent by	30/06/2017	30/09/2017	31/12/2017	31/03/2018	

4.9 The last quarter in 2014/15 is estimated based on one completed sale and two applications that are likely to be completed before the end of the financial year. The current balance of retained receipts as at 31 March 2014 is £1,112,576.

4.10 A forecast of Retained Receipts is as follows:

	2015/16	2016/17	2017/18
Sales	11	5	5
Projected Income	1,110,000	513,614	513,614
Projected Retained	466,466	282,146	282,146
Expenditure required	1,554,886	940,486	940,486

4.11 It is assumed that sales will begin to flat-line from 2016/17; therefore, an estimate of 5 RTB sales per year has been incorporated.

4.12 The Business Plan also assumes that the 70% additional costs will come from the HRA earmarked reserve. However, there is the possibility of using Section 106 Contributions which have the provision of Affordable Homes as part of the conditions.

Capital Programme – Projected Outturn 2014/15

4.13 The table below shows the projected spend on the Capital Programme for 2014/15:

DESCRIPTION	2014/15 ORIGINAL ESTIMATE £	2014/15 MID YEAR ESTIMATE £	2014/15 ESTIMATED OUTTURN £
Street Scene and Environment	760,000	621,000	241,000
Localism	269,100	259,000	259,000
A Prosperous Borough	1,837,290	236,000	235,820
Housing, Health and Wellbeing	3,961,800	3,952,000	3,150,000
A Safe Borough	195,750	168,000	148,450
A Modern Council	4,095,390	1,513,000	1,314,500
TOTAL EXPENDITURE ON CORPORATE PRIORITIES	11,119,330	6,749,000	5,348,870
Funded by:			
Capital Receipts	8,246,330	3,886,000	1,237,621
Borrowing	-	-	1,121,249
Government Grants	120,000	120,000	130,000
Other Grants and Contributions	-	-	-
Housing Revenue Account			
Business Plan	2,753,000	2,743,000	2,045,580
Contributions from Revenue	-	-	814,420
TOTAL FUNDING	11,119,330	6,749,000	5,348,870

4.14 The Original Estimates includes slippage of £1,614,050 from 2013/14 and £26,050 of new schemes agreed during 2014/15.

4.15 The key variances from the mid year review to the projected outturn are as follows:

- Vehicle Replacement Programme (£380,000) - part of this variance is due to the Housing Maintenance service being outsourced from 2014/15. It was budgeted that these vehicles would be replaced in this financial year and therefore it was no longer necessary. The

remainder of the variance is due to purchasing vehicles and equipment at a lower price than originally anticipated.

- HRA Decent Homes Scheme (£801,000) – slippage into 2015/16.
- Town Hall (£200,000) – this project has been subject to an extensive review, with a revised scope of works being approved at Ordinary Council in December 2014. The bulk of this project will be delivered in 2015/16.

4.16 The original capital programme for 2014/15 required no borrowing as it was assumed that it would be funded from a combination of Capital Receipts, Government Grants and the HRA Business Plan. The estimates for the generation of Capital Receipts have since been revised downwards and the Council will need to borrow £1.1 million in order to fund the capital programme.

4.17 Total capital receipts of around £4 million are expected to be received over the next year from disposal of the following properties:

- Warley Training Centre
- Bellmead – Ingatestone
- Hallsford Bridge

Capital Programme 2015/16 – 2017/18

4.18 As part of the formulation of the future Capital Programme, budget bids were invited for consideration. These bids were then evaluated by Lead Members and Officers.

4.19 The Council will continue its investment in its Housing Stock (estimated at £9 million over the next 3 years).

4.20 Investment proposals for 2015/16 to 2017/18 are outlined below:

	2015/16	2016/17	2017/18
	£	£	£
Existing Schemes:			
Vehicle Replacement Programme	200,000	150,000	150,000
Car Park Refurbishment & Upgrade	15,000	-	-
Home Repair Assistance Grants	30,000	30,000	30,000
Disabled Facilities Grants	280,000	280,000	280,000
CCTV System Upgrade	5,000	5,000	-
Play Area Refurbishments	100,000	100,000	100,000
Town Hall Remodelling	2,780,890	-	-
HRA – Decent Homes	2,980,000	3,000,000	3,000,000
TOTAL EXISTING SCHEMES	6,390,890	3,565,000	3,560,000
New Schemes:			
Brentwood Leisure Centre – filter refurbishment, boilers and air handling	88,280	-	-
Improvements at Brentwood and Shenfield stations	-	200,000	-
Structural and Safety Works at the Multi Storey Car Park	375,050	663,950	-
Old House Redevelopment	1,080,000	-	-
ICT Strategy	100,000	100,000	100,000
Replacement of Folding Machine	2,000		
New Homes Build	1,554,890	2,153,700	1,554,890
TOTAL NEW SCHEMES	3,200,220	3,117,650	1,654,890
TOTAL CAPITAL PROGRAMME	9,591,110	6,682,650	5,214,890

- 4.21 Assuming all of the proposals are approved, the total investment for the 3 year programme will be £21,488,650 and the funding sources are outlined in the table below:

SOURCE OF FUNDING	£
Capital Receipts	4,030,000
Borrowing	4,394,220
Grants	360,000
Revenue Contributions	40,000
HRA Business Plan	12,664,430
TOTAL	21,488,650

- 4.22 Plans for capital investment are used to develop the Capital Programme. The programme is driven by the need to get maximum value for money from the Council's assets by making sure that they are well maintained and where possible providing a revenue return. The Council can borrow to fund its capital expenditure and with interest rates at historically low levels, this is a potentially viable option.
- 4.23 The proposals above exclude any property acquisitions/developments where a business case can demonstrate that a capital investment can be converted to a revenue income stream. The Council currently has sufficient headroom to allow for borrowing of this nature, but each case would be the subject of a report and business case to Assets and Enterprise Committee.

5. Reasons for Recommendation

- 5.1 The Council is required to approve the Capital Programme as part of the Budget and Policy Framework.

6. Consultation

- 6.1 None.

7. References to Corporate Plan

- 7.1 Good financial management underpins all priorities within the Corporate Plan.

8. Implications

Financial Implications

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- 8.1 The financial implications are detailed within the report.

Legal Implications

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- 8.2 This report is exclusively concerned with financial matters. There are therefore no direct legal implications. In accordance with the Council's Constitution, the capital programme requires the approval of full Council.

9 Background Papers (include their location and identify whether any are exempt or protected by copyright)

- 9.1 12 February 2014 – Strategy and Policy Board Capital Programme 2015/16 – 2017/18.

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Members Interests

Members of the Council must declare any pecuniary or non-pecuniary interests and the nature of the interest at the beginning of an agenda item and that, on declaring a pecuniary interest, they are required to leave the Chamber.

- **What are pecuniary interests?**

A person's pecuniary interests are their business interests (for example their employment trade, profession, contracts, or any company with which they are associated) and wider financial interests they might have (for example trust funds, investments, and asset including land and property).

- **Do I have any disclosable pecuniary interests?**

You have a disclosable pecuniary interest if you, your spouse or civil partner, or a person you are living with as a spouse or civil partner have a disclosable pecuniary interest set out in the Council's Members' Code of Conduct.

- **What does having a disclosable pecuniary interest stop me doing?**

If you are present at a meeting of your council or authority, of its executive or any committee of the executive, or any committee, sub-committee, joint committee, or joint sub-committee of your authority, and you have a disclosable pecuniary interest relating to any business that is or will be considered at the meeting, you must not :

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting participate further in any discussion of the business or,
- participate in any vote or further vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

- **Other Pecuniary Interests**

Other Pecuniary Interests are also set out in the Members' Code of Conduct and apply only to you as a Member.

If you have an Other Pecuniary Interest in an item of business on the agenda then you must disclose that interest and withdraw from the room while that business is being considered

- **Non-Pecuniary Interests**

Non –pecuniary interests are set out in the Council's Code of Conduct and apply to you as a Member and also to relevant persons where the decision might reasonably be regarded as affecting their wellbeing.

A 'relevant person' is your spouse or civil partner, or a person you are living with as a spouse or civil partner

If you have a non-pecuniary interest in any business of the Authority and you are present at a meeting of the Authority at which the business is considered, you must disclose to that meeting the existence and nature of that interest whether or not such interest is registered on your Register of Interests or for which you have made a pending notification.

Ordinary Council Terms of Reference

General Powers of Council

The Council is the ultimate decision making body of Brentwood Borough Council and the principal forum for major political debate. All 37 Councillors who have been elected to represent the borough attend the Council meeting.

The Council decides the overall objectives, major policies and financial strategies of the Council. It also considers recommendations from the Scrutiny and Regulatory Committees on issues of significance.

Through the Constitution, it delegates responsibility for carrying out many of the Borough Council's functions and policies to its committees. It also agrees the membership of the committees/sub-committees.

Only the Council will exercise the following functions:-

- (a) adopting and approving changes to the Constitution;
- (b) adopting and amending Contract Standing Orders and Financial Regulations;
- (c) agreeing and/or amending the terms of reference for committees and any joint committees, deciding on their composition chairmanship and making initial appointments to them;
- (d) appointing representatives to outside bodies and consultative groups unless the appointment has been delegated by the Council;
- (e) adopting and amending a members' allowances scheme under Chapter 6;
- (f) to elect the Leader and Deputy Leader of the Council;
- (g) to designate the Chairs and Vice Chairs of the Council;
- (h) adoption of the Code of Conduct for Members;
- (i) electoral and ceremonial matters relevant to the Council
- (j) changing the name of the area, conferring the title of honorary alderman or freedom of the borough;
- (k) setting the Council's Budget and Council Tax;
- (l) approving the making of a virement or payment from the Council's reserves for values exceeding £200,000;

