

29 November 2016

Policy, Finance and Resources Committee

Budget Monitoring Mid Year Review and Medium Term Financial Plan

Report of: *John Chance, Finance Director*

Wards Affected: *All*

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 provides the Policy Finance and Resources Committee with an update on the Council's
 - I. Revenue and capital projected outturn position as at the end of September 2016, including the review of the Treasury Management Strategy Statement and Annual Investment Strategy.
 - II. Medium Term Financial Strategy for 2017/18 to 2019/20.

2. Recommendation(s)

The Policy, Finance and Resources Committee is recommended to:

- 2.1 **Agree the projected outturn position for 2016/17 of the Council's General Fund revenue budget as at 30 September 2016, as detailed in paragraph 3 of the report;**
- 2.2 **Agree the projected outturn position for 2016/17 of the Council's HRA at 30 September 2016, as detailed in paragraph 4 of the report;**

2.3 Agree the current projected position for 2016/17 of the Council's capital budget as at 30 September 2016, as detailed in paragraph 5 of the report;

2.4 Agree the Treasury Management Activity for the period 1 April 2016 to 31 October 2016 as detailed in paragraph 6 of the report;

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3. Introduction and Background

General Fund - Projected Revenue Outturn 2016/17

- 3.1 The 2016/17 General Fund budget was agreed at the Council Meeting on 2 March 2016 that it would need funding of £285k from reserves, as planned, in order to break even for the financial year. Table 1 summarises the current projected General Fund spending position.

Table 1 - General Fund - Projected Outturn 2016/17

Description	Net Budget 2016/17	Full year forecast at 30/09/16	Variance
	£'000	£'000	£'000
Environmental Management & Housing Management	3,231	3,272	41
Community & Health	3,313	3,325	12
Economic Development	(483)	(474)	9
Planning & Licensing	1,263	1,277	14
Transformation	2,571	2,577	6
Central Expenses	556	552	(4)
Reserves	168	90	(78)
Total Expenditure	10,619	10,619	0
Income	(10,334)	(10,334)	0
Net Expenditure (to be funded from reserves as agreed at the budget setting meeting)	285	285	0

- 3.2 An analysis of the key variances by service with explanations is provided in Appendix A to this report.
- 3.3 Officers are continuing to look at opportunities to improve upon this position across the remainder of the financial year.

4 Housing Revenue Account - Projected Revenue Outturn 2016/17

- 4.1 The HRA is currently forecasting to have a surplus of £207k in 2016/17. The budget was originally set with a projected surplus of £293k. This indicates that there is projected reduction in the surplus of £86k. The position is summarised in the Table 2.

Table 2 - HRA - Projected Outturn 2016/17

Area	Net Budget 2016/17 £'000	Full year forecast at 30/09/2016 £'000	Over/(under) spend Forecast £'000
Total Service Expenditure	7,820	7,906	86
Total Service Income	(13,690)	(13,690)	0
Corporate Costs	455	455	0
Non-Service Costs	4,622	4,622	0
Appropriations	500	500	0
(Surplus)/Deficit for HRA	(293)	(207)	86

4.2 An analysis of the key variances by service with explanations is provided in Appendix B to this report.

5 Capital Programme - Projected Outturn 2016/17

5.1 The current projection for the capital programme is that it will spend £8,696m against the budget of £11,674m.

5.2 An analysis of the capital programme with explanations for variances is provided in Appendix C to this report.

6 Treasury Management Strategy Statement and Annual Investment Strategy - 1 April 2016 to 31 October 2016 - Executive Summary

6.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Council on 2 March 2016.

6.2 The Council has adopted the Code of Practice for Treasury Management issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). One of the requirements of the Code is that members should receive a mid year review report.

6.3 This report, which covers the first seven months of the 2016/17 financial year, is presented in accordance with this requirement.

Investments

- 6.4 The Council's investment balances at 1 April and 31 October were are outlined in Table 3.

Table 3 - Council's Investment Balances

	£000
Investments at 1 April 2016	9,300
Investments at 31 October 2016	24,000
Increase	14,700

- 6.5 The increase in investment balance is largely due to the timing of council tax and business rates receipts, most of which are received over the first ten months of the financial year. An additional factor this year is the £3.6m capital receipt from the sale of Warley Training Centre in April.
- 6.6 The investment balances are expected to remain at between £20m-£24m up to the end of January 2017 and to decrease over the last two months of the financial year, as council tax and business rates tail off, but expenditure remains constant. In addition, it is planned to make a HRA loan repayment of £5m at the end March 2017.
- 6.7 The latest forecast is for the year-end investment balance to be between £10m-£12m, though the actual amount will depend on factors such as the size of any slippage on the capital programme.
- 6.8 The investments made this year have been in the form of:
- fixed term deposits with UK banks, building societies and other local authorities
 - deposits in a 95 day notice account provided by Santander UK plc
 - instant access deposits with the Council's banker, Lloyds Bank plc.
- 6.9 All investments have been in accordance with the Council's treasury management strategy.

6.10 Table 4 identifies the investments held by the Council at 31 October 2016:

Table 4 - Investments held at 31 October 2016

<u>Fixed Term Deposits</u>	Amount £'000	Start date	Maturity date	Interest rate
<u>UK Banks & Building Societies</u>				
Lloyds Bank Plc	1,000	01/12/2015	01/12/2016	1.05%
Lloyds Bank Plc	1,000	04/01/2016	04/01/2017	1.05%
Lloyds Bank Plc	1,000	04/04/2016	04/04/2017	0.97%
Santander UK plc	1,000	04/01/2016	03/01/2017	0.98%
Goldman Sachs	2,500	13/04/2016	13/03/2017	0.89%
Coventry Building Society	1,500	01/08/2016	01/12/2016	0.39%
Coventry Building Society	1,000	12/08/2016	13/02/2017	0.35%
Nationwide Building Society	1,000	11/02/2016	11/11/2016	0.84%
Nationwide Building Society	2,000	04/04/2016	04/01/2017	0.84%
Nationwide Building Society	1,000	13/04/2016	13/03/2017	0.91%
<u>Local Authorities</u>				
Blackpool Council	1,000	03/10/2016	03/11/2016	0.18%
Highland Council	1,000	18/10/2016	18/04/2017	0.27%
Leeds City Council	1,000	03/10/2016	13/01/2017	0.22%
Leeds City Council	1,000	14/10/2016	01/06/2017	0.27%
Plymouth City Council	1,000	31/10/2016	31/01/2017	0.24%
Thurrock Council	1,000	09/09/2016	09/12/2016	0.20%
Thurrock Council	1,000	03/10/2016	03/04/2017	0.26%
Thurrock Council	1,000	04/10/2016	04/05/2017	0.27%
<u>95 day notice account</u>				
Santander UK plc	3,000	Call Account		0.65%
Total	24,000			

Interest rate forecast and Investment income

- 6.11 The Base Rate was cut to a historic low level of 0.25% in August 2016, and it is forecast that there could be a further cut to 0.10% later this year in order to stimulate economic activity. This is not forecast to increase until mid 2018. The Council's budgeted investment return for 2016/17 is around £80k.

Borrowing

- 6.12 Table 5 identifies the long-term loans held by the Council at 31 October 2016:

Table 5 - Long Term Loans as at 31 October 2016

Start date	Repayment date	Interest rate	Amount £'000
28/03/2012	28/03/2017	1.24%	5,000
28/03/2012	28/03/2022	2.40%	5,000
28/03/2012	28/03/2027	3.01%	10,000
28/03/2012	28/03/2032	3.30%	15,000
28/03/2012	28/03/2037	3.44%	15,000
28/03/2012	28/03/2042	3.50%	14,166
30/04/1995	30/04 2055	8.88%	800
24/04/1995	24/02/2055	8.88%	800
08/01/2003	08/01/2028	4.88%	400
Total			66,166

- 6.13 As outlined in paragraph 6.6, the first loan is due for repayment on 31 March 2017.

- 6.14 It is anticipated that no long term borrowing will be undertaken during this financial year

7 Medium Term Financial Strategy 2017/18 to 2019/20

Introduction and Background

- 7.1 At the Council meeting on the 2 March 2016, Council approved the budgets for 2016/17 for the General Fund, HRA and Capital. The capital programme was amended for any carry forwards at the Council meeting on 21 June 2016.

General Fund

- 7.2 The General Fund position as approved on 2 March 2016, is outlined in Table 6:

Table 6 – General Fund Position as approved on 2 March 2016

	2016/17 Estimate £'000	2017/18 £'000	2018/19 £'000
Total Net Forecast Spend	10,619	10,327	10,520
Total Funding	(10,334)	(9,364)	(8,499)
Funding Gap	285	963	2,021
Working Balance b/fwd	3,961	3,376	2,063
Less:- Funding Gap	285	963	2,021
Less: Earmarked for WHW	300	350	-
Working Balance c/fwd	3,376	2,063	42

Issue, Options and Analysis of Options**Finance Settlement**

- 7.3 As detailed information on funding will not be available till late December 2016, the funding assumptions are as per those reported at the budget setting meeting on 2 March 2016. These are detailed in the paragraphs below.

Phasing Out of Revenue Support Grant

- 7.4 As announced in December 2015, Revenue Support Grant (RSG) will be phased out entirely by 2019/20. This will 'pave the way for the implementation of 100% business rate retention' and will assess the main income streams available to local government, including council tax and business rates. Guidance on the implementation of this are awaited.
- 7.5 The funding implications of the phasing out of RSG (which accounts for the majority of the anticipated funding gap as shown in Table 11) are outlined in Table 7.

Table 7 - Revenue Support Grant Funding

	2016/17 Estimate £'000	2017/18 Indicative £'000	2018/19 Indicative £'000	2019/20 Indicative £'000
Revenue Support Grant	710	233	Nil	Nil
Tariff/Top-Up adjustment	Nil	Nil	(52)	(370)
Council Tax Freeze Grant	Nil	Nil	Nil	Nil
TOTAL	710	233	(52)	(370)

New Homes Bonus

- 7.6 Details of reforms to the New Homes Bonus (NHB) were set out as part of the local government finance settlement consultation in December 2015. The Government's preferred options lead to savings in the grant of at least £800m, 'which was then earmarked to be used for social care'. The proposals for changes to the NHB included reforms 'sharpening the incentive to reward communities for additional homes' and also reduced the length of bonus payments for new homes from 6 years to 4 years. This will occur from 2018/19. The profile of the Grant payments is outlined in Table 8.

Table 8 – New Homes Bonus Grant

	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000	£'000	Est £'000	Est £'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	207	
Yr 4				416	416	416	416	261	261
Yr 5					241	241	241	151	151
Yr 6						167	167	105	105
Yr 7							266	167	167
Yr 8								136	136
Yr 9									136
TOTAL	255	469	799	1,215	1,456	1,623	1,634	1,027	956

Planning Assumptions for 2016/17 to 2018/19 Pay Awards (Inflation)

- 7.7 For financial planning purposes a 1% increase has been included for 2017/18 onwards.

Pressures

- 7.8 The current pressures are outlined in Table 9.

Table 9 – General Fund – Current Pressures

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000
Pressures			
Income from Public Sector Hub	272	272	73
Rent Reviews and New Leases	10	10	10
Sale of Services	10	10	0
Total Pressures	292	292	83
Other Pressures (To be funded from Reserves)			
Town Hall Project	118	71	0

Funding/Anticipated Savings

7.9 The current increase in funding and anticipated savings are outlined in Table 10:

Table 10 – Increase in Funding/Anticipated Savings/Pressures

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000
Increase in Council Tax Base (assumes no increase in Council Tax)	(23)	(23)	(24)
Assumed Collection Fund Surplus	(125)	0	0
Waste Transfer Station - Anticipated Saving	(80)	(80)	(80)
Total	(228)	(103)	(104)

7.10 **Council Tax Base:** It is estimated that the Council Tax base will increase by around 294 Band D equivalent properties. The impact of this will be an increase in income of around £23k to that already budgeted for in the MTFS report agreed on 2 March 2016.

7.11 **Collection Fund:** Initial calculations indicate that the Collection Fund will have a surplus of around £125k. Please note that this is a 'one off' amount.

7.12 **Council Tax:** Members should note that if a decision is made to increase the Council Tax by the amount permitted without having a referendum, (which currently is an increase of up to 2% or £5 (whichever is the higher figure) for a Band D property), this will provide additional income and also increase the Council's base budget position by £160k in 2017/18.

7.13 **Waste Transfer Station:** A facility for waste and recycling storage is being constructed at the Depot. This will provide the opportunity to seek economies through the direct handling of waste material: such as dry recyclables, food waste and fly-tipped material. This will achieve savings of £80k in a full year.

Summary on General Fund

7.14 Table 11 shows the impact on the original funding position (outlined in Table 6 at paragraph 7.2), together with the updated information identified through the Half Year Budget Review process:

Table 11 - Revised General Fund Position

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total Net Forecast Spend	10,619	10,327	10,503	10,666
Total Funding	(10,334)	(9,364)	(8,499)	(8,140)
Funding Gap	285	963	2,004	2,526
Current Pressures	0	292	292	83
Increase in Funding/Anticipated Savings/Pressures	0	(228)	(103)	(104)
Total Funding Gap	285	1,027	2,193	2,505
Working Balance b/fwd	3,965	3,680	2,185	(79)
Less: Total Funding Gap	285	1,027	2,193	2,505
Less: Earmarked for WHW	300	350	-	-
Less: Earmarked for Town Hall Project	-	118	71	-
Working Balance c/fwd	3,680	2,185	(79)	(2,584)

7.15 Table 11 identifies a potential funding gap of around £5.7m over the next 3 years. This is clearly not financially sustainable and the Council is currently considering a detailed medium and longer term strategy to reduce costs and generate significant income to the Council in order to bridge the funding gap. Additional details will be brought to the next P,F&R Committee, which will form part of the budget proposals.

Working Balances and Reserves

7.16 A minimum General Fund Working Balance of £2.2m has been agreed. In accordance with best practice, an annual risk assessment will be undertaken to check the level required for 2017/18. Due to the size of the gap it is likely savings will continue to be developed throughout 2017/18 to reduce the draw down from reserves.

7.17 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 2016 is £2.5 million.

HOUSING REVENUE ACCOUNT

7.18 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.

7.19 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.

8. Reasons for Recommendation

8.1 Effective financial management underpins all of the priorities for the Council and will enable the Council to operate within a sustainable budget environment.

9. Implications

Financial Implications

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9.1 The financial implications are set out in the report.

Legal Implications

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

10. Consultation

10.1 None

11. References to Corporate Plan

11.1 The Council's budget is linked to achieving the Vision in the Corporate Plan.

12. Background Papers

12.1 Available in the Finance Department.

13. Appendices to this report

- Appendix A An analysis of the key variances by service with explanations – General Fund
- Appendix B An analysis of the key variances by service with explanations – HRA
- Appendix C An analysis of the capital programme with explanations for variances – Capital Programme

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GENERAL FUND VARIATIONS

APPENDIX A

	Net Budget	Projected Year End Position	Variance	
	£'000	£'000	£'000	
Environment & Management	3,231	3,272	41	The projected overspend is mainly due to the 'Income Target' from the Town Hall Hub not being achieved.
Community & Health	3,313	3,325	12	This overspend of £12k is mainly due severance payments These will be funded from earmarked reserves and this has been reflected in the reserves line.
Economic Development	(483)	(474)	9	The overspend is due to the 'one off' savings for crossrail compensation of £35k not being achieved. This has been offset by an increase in Penalty Charge Notice Collection of £25k.
Planning & Licensing	1,263	1,277	14	The overspend is mainly due to interims covering vacant posts due to a review of the planning service being undertaken.
Transformation	2,571	2,577	6	£60k overspend is for severance payments which will be funded from earmarked reserves and this is reflected in the reserve line. This is offset by a projected underspend mainly due to delays in filling vacant posts.
Central Expenses	556	552	(4)	Investment property leases income more in line with actual spend
Reserves	168	90	(78)	Earmarked reserves are being utilised to fund severance payments which are causing a pressure in the Service areas above
Total	10,619	10,619	0	

HOUSING REVENUE ACCOUNT (HRA) - KEY VARIATIONS

APPENDIX B

Service	Service	Area	Variance Overspend/ (Underspend) £'000	Comments
Repairs & Maintenance	Responsive Repairs	General R&M	100	Costs of responsive repairs are reactive and perceived to potentially exceed budget.
Repairs & Maintenance Total			100	
Supervision & Management	Policy & Management	Salaries / Project Management Support	49	Main overspend is due to Interims covering vacant posts - Plans are in place to fill the vacancies.
Supervision & Management	Rent Collection	Refunds	10	Minor overspend projected which is based on previous years' actuals.
Supervision & Management Total			59	
Special Services	Grounds Maintenance	Grounds Maintenance	3	Minor overspend projected due to additional treework
Special Services	Caretaking	Salaries Related Expenditure/Third Party	(35)	Underspend projected due to delays in filling vacant posts - plans in place so posts are filled.
Special Services	Supported Housing Services	Salaries Related Expenditure	(44)	Underspend projected due to delays in filling vacant posts - plans in place so posts are filled.
Special Services Total			(76)	
Rent, Rate & Other Charges	Rent, Rate & Other Charges	Premises Related	3	Minor overspend in NNDR rates for Voids and Insurance Premiums
Variance Total			86	

CAPITAL PROGRAMME - VARIATIONS

APPENDIX C

Priority	Programme	Original Budget*	Slippage	Current Budget	Estimated Outturn	Variance Overspend/ (Underspend)	Comments
		£'000	£'000	£'000	£'000	£'000	
Environment & Housing							
	Vehicle Replacement Programme	750	285	1,035	1,035	0	On Target
	Cemetery Headstones	20	0	20	20	0	On Target
	Parking Bays at Woodman Road	25	0	25	25	0	On Target
	Home Repairs Assitance	30	0	30	5	(25)	Less number of Applications being received
	Disabled Facilities	250	0	250	106	(144)	Less number of Applications being received
	HRA Decent Homes	2,606	2,056	4,662	3,176	(1,486)	There are plans for the Decent Home Programme to be reviewed pending a stock condition survey
	HRA Aquisitions	2,154	0	2,154	2,154	0	On Target
Environment & Housing Total		5,835	2,341	8,176	6,521	(1,655)	
Community Health							
	CCTV System Upgrade	5	0	5	14	9	Cameras Need Replacing - Projected overspends
	Play area Refurbishment	100	53	153	153	0	On Target
	Unauthorised Caravan Defences	0	134	134	134	0	On Target
	Leisure Strategy	100	0	100	100	0	On Target
	Irrigation to golf course	0	30	30	30	0	On Target
Community & Health Total		205	217	422	431	9	
Economic Development							
	Car Park Refurbishment*	25	19	18	0	(18)	On Hold - All Car Parks under review
	Upgrade the Multi Storey Car Park*	930	179	915	65	(850)	On Hold - All Car Parks under review
	Car Park Improvements	200	0	200	120	(80)	On Hold - All Car Parks under review
	Renaissance Group*	26	39	39	0	(39)	No Spend to date
	Shenfield Improvement Scheme*	600	1,600	600	400	(200)	On Hold - All Car Parks under review
Economic Development Total		1,781	1,837	1,772	585	(1,187)	
Transformation							
	ICT Strategy	100	0	100	100	0	On Target
	Town Hall Remodelling*	1,000	3,610	1,000	250	(750)	Project going ahead - main spend likely to occur in 17/18 - Est Outturn based on committed Expenditure on project to date.
	Asset Management Strategy	0	104	104	104	0	On Target
	Asset Improvemets	100	0	100	0	(100)	
	General Fund Aquisitions	0	0	0	705	705	Purchase of 1-2 Seven Arches Road
Transformation Total		1,200	3,714	1,304	1,159	(145)	
Total Programme		9,021	8,109	11,674	8,696	(2,978)	

* Original Budget Included projected carry forwards from the 2015/16 Capital Programme for schemes where expenditure was expected to slip into 16/17