



Ordinary Council (Budget)

Agenda

Part One

Town Hall, Brentwood

Wednesday 5 March 2014 on the rising of the Strategy and Policy Board (Budget) meeting which commences at 7.00pm

Membership (Quorum: 10)

Councillors

Cllrs Mrs Henwood (Mayor), Reed (Deputy Mayor), Aspinell, Baker, Mrs Beeston, Braid, Carter, Chilvers, Clark, Clarke, Mrs Coe, Mrs Cohen, Mrs Cornell, Mrs Davies, Ms Golding, Hirst, Mrs Hones, Hossack, Keeble, Kendall, Kerlake, Le-Surf, Lloyd, McCheyne, Mrs McKinlay, Morrissey, Mrs Murphy, Mynott, Dr Naylor, Parker, Mrs Pound, Quirk, Russell, Sapwell, Sleep, Sparling and Tee.

Committee Co-ordinator: Mrs J Sharp 01277 312655

Additional Information:

Notice of an Amendment

In accordance with the Council's Constitution, notice of an amendment to the recommendation of the Strategy and Policy Board for the setting of the Council's budget must be given by two members to the Monitoring Officer by 10.00 am **five working days** before the day of the meeting.

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 Member may raise a point of information or clarification at any time and the Mayor will hear them immediately. A point of information or clarification must relate to the matter being debated. 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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Part I

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

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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.



Managing Director

Town Hall
Brentwood, Essex
18.02.2014

5 March 2014

Agenda Item: 2

Ordinary Council (Budget)

Medium Term Financial Plan (General Fund) 2014/15 – 2016/17

Report of: *Jo-Anne Ireland, Director of Strategy and Corporate Services*

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 delivers the priorities of the Council, over the medium term.
- 1.2 This report considers the latest funding projections following confirmation of the Local Government Finance Settlement and outlines the progress made with the Council's Transformation Programme.
- 1.3 The report also outlines the proposed new areas on investment, together with a proposal for a Council Tax reduction of 1.5% for 2014/15.

2. Recommendation(s)

- 2.1 **To approve a Council Tax reduction of 1.5% for 2014/15.**
- 2.2 **To note the key assumptions that underpin the Medium Term Financial Plan and the associated risks.**
- 2.3 **To note the projected outturn for a balanced budget in 2013/14.**
- 2.4 **To approve the new investment areas for 2014/15 of:**
 - i. **Street Scene and Environment - £90,000**
 - ii. **A Prosperous Borough - £181,500**
 - iii. **Localism - £30,000**
 - iv. **A Safe Borough - £25,000**

- 2.5 To approve that any costs arising from the development of William Hunter Way (up to a maximum of £1.2 million) will be met from the General Fund Working Balance, subject to the Working Balance not falling below the £2.5 million level.**
- 2.6 To approve that a further report be presented to Council should the minimum balance of £2.5 million be breached.**
- 2.7 To take into consideration 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 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.

The Global Economy and Inflation

- 3.2 Key economic data and forecasts are relevant to Local Government, and the tables below show the latest projections in relation to Growth Forecasts and Consumer Price Index (CPI) Inflation:

Growth Forecasts:

	2012	2013	2014	2015	2016
December 2012	(0.1%)	1.2%	2.0%	2.3%	2.7%
March 2013	0.2%	0.6%	1.8%	2.3%	2.7%
December 2013	0.1%	1.4%	2.4%	2.2%	2.6%

CPI Inflation:

	2012	2013	2014	2015	2016
December 2012	2.8%	2.5%	2.2%	2.0%	2.0%
March 2013	2.8%	2.8%	2.4%	2.1%	2.0%
December 2013	2.8%	2.6%	2.3%	2.1%	2.0%

- 3.3 For the purposes of the MTFP, the following Budget Planning Assumptions have been used:

	2014/15	2015/16	2016/17
General Inflation	2.50%	2.00%	2.00%
Pay Awards (Inflation)	1.00%	1.00%	1.00%
Fees and Charges	2.50%	2.00%	2.00%

- 3.4 HM Treasury will continue to look at how public sector pay policy can be reformed. In advance of this, the Government will pilot a “pay bill control” in a small number of Government organisations. This will look to replace the 1% pay cap with a pre-determined budget for pay. At this time, the Council will continue with an annual provision of 1% until further details are released from the Treasury.

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 7.1% over the three months to November 2013. 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 claimant numbers for Brentwood is shown below:

	March 2011	March 2012	March 2013	March 2014 est
Housing Benefit	3,180	3,330	3,292	3,199
Council Tax Benefit	4,353	4,381	4,260	3,986

4 Issue, Options and Analysis of Options

Local Government Finance Settlement

- 4.1 On 18 December 2013, the Local Government Minister, Brandon Lewis MP, made a written statement on the Provisional Local Government Finance Settlement 2014/15, which included indicative data for 2015/16. These figures were confirmed on 5 February 2014, with no changes to the values received in December.
- 4.2 The 2014/15 Settlement represents the second 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 £32 million in Business Rates Income, of which it currently receives back £1.5 million through the Finance Settlement.
- 4.4 There is no cap on the amount of resources that an Authority can receive through the scheme. However, the scheme includes a levy on additional receipts due to Business Rates growth. As per 2013/14, there is a proportional levy ratio of 1:1 i.e. for every 1% increase in Business Rates base, an Authority would see no more than a corresponding 1% increase in income, with a maximum levy rate of 50%.
- 4.5 For 2014/15 a Safety Net mechanism will continue to operate within the BRR Scheme. This is triggered if an Authority sees its income in any one year decline by more than 7.5% below its baseline funding level.
- 4.6 An on-going concern for the Council is 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.
- 4.7 The Valuation Office Agency (VOA) is currently experiencing a backlog at the Tribunal stage of appeals against the Rateable Values contained within the 2005 and 2010 rating lists. Information from the VOA website indicates that 2,316 appeals were made by businesses within the Borough against their current valuation, of which 297 remain outstanding.
- 4.8 Successful appeals can be backdated to 01 April 2005 and in view of this, provision for the 2013/14 (current year) appeals costs has been set at £531,555, whilst £1,567,222 has 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.

- 4.9 The Finance Settlement announcement has confirmed that there will be no further cuts to Local Government Funding for 2014/15. Whilst this has provided greater funding levels for the Council than originally anticipated, it is still important to note that the Council has seen a 39.2% (£1.4 million) reduction in funding since 2011/12 (excluding Council Tax Freeze Grants and Local Council Tax Support Funding).
- 4.10 The funding announced as part of the Finance Settlement for 2014/15 and 2015/16 (provisional) is as follows:

	2014/15 £	2015/16 £
Start Up Funding	3,197,000	2,712,000
Council Tax Freeze Grant 2014/15*	56,470	56,470
Council Tax Freeze Grant 2015/16*	-	56,470
TOTAL	3,253,470	2,824,940

*This grant is receivable if the Council freezes or reduces its Council Tax.

- 4.11 The Start Up Funding compares to an adjusted figure for 2013/14 of £3,685,000 which represents a funding reduction of 13.2% (2014/15) and 15.2% (2015/16).
- 4.12 The table below compares the reduction in funding experienced by Brentwood Borough Council between 2013/14 and 2014/15 against comparator groups:

Change in Funding (based on adjusted figures)	2014/15
Brentwood Borough Council	-13.2%
Inner London Boroughs incl. City	-10.7%
Outer London Boroughs	-10.0%
Metropolitan Districts	-10.1%
Shire Unitaries	-9.9%
Shire Counties	-8.5%
Shire Districts	-13.5%
England	-9.4%
<i>Note: England figure includes Police and Fire authorities</i>	

- 4.13 The table below compares the reduction in funding across Essex Authorities between 2013/14 and 2014/15:

Change in Funding (based on adjusted figures)	2014/15
Basildon	-13.3%
Braintree	-13.5%
Brentwood	-13.2%
Castle Point	-13.4%
Chelmsford	-13.6%
Colchester	-13.4%
Epping Forest	-13.4%
Harlow	-13.5%
Maldon	-13.5%
Rochford	-13.4%
Tendring	-13.7%
Uttlesford	-13.0%

- 4.14 Funding for the new Local Council Tax Support Scheme is now included within the overall funding and is no longer separately identifiable. The overall scheme costs for 2014/15 are estimated at £3.8 million.
- 4.15 Homelessness Prevention Funding has also been included within the overall allocations as follows:
- 2014/15 £49,252
 - 2015/16 £49,235
- 4.16 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

- 4.17 In June 2013, the Government proposed to top slice some £400 million of New Homes Bonus to pool within a Local Enterprise Scheme Partnership to support strategic housing and economic development priorities. However, as part of the Autumn Statement the Chancellor of the Exchequer confirmed that the Government will now only top slice from London Authorities. This effectively returns £400 million to Local Government in 2015/16 and every year thereafter.
- 4.18 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.

4.19 The allocations for 2014/15 have been announced, and based on an overall increase in housing stock of 314; the latest allocations and projections are set out below:

	2011/12	2012/13	2013/14	2014/15	2015/16 Estimate	2016/17 Estimate
	£	£	£	£	£	£
Year 1	254,970	254,970	254,970	254,970	254,970	254,970
Year 2		214,200	214,200	214,200	214,200	214,200
Year 3			329,520	329,520	329,520	329,520
Year 4				415,560	415,560	415,560
Year 5					300,000	300,000
Year 6						300,000
TOTAL	254,970	469,170	798,690	1,214,250	1,514,250	1,814,250

4.20 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

For 2014/15, the Council will continue to treat the Grant funding as general financial support for the overall General Fund budget.

4.21 The Government has announced that it will carry out an evaluation of New Homes Bonus by Easter 2014 and consult on measures to improve the incentive provided by the New Homes Bonus.

New Ways of Working

4.22 The MTFP approved in February 2013 included a high level business case outlining a 3 year transformation programme for the Council. The need for transformation and change is not simply driven by budget; as a customer driven organisation there is a need to transform our traditional pattern of service delivery and position the Council as:

- An excellent provider of services;
- An organisation that secures savings through a lean back office structure;
- An investor in front line services, and
- Entrepreneurial in its approach to drive up income and achieve efficiencies.

4.23 The transformation programme is based on 4 key strands:

- 1) **Customer Excellence** – a customer transformation project which will promote a channel shift for customer enquiries, supported by a multi-skilled front of house reception team.
- 2) **Efficiency Reviews** – primarily focused on reducing back office costs by streamlining processes and exploring different service delivery models.
- 3) **Management Restructure** – a flexible, interim structure will be required to support the transformation. However, a further reduction in Senior Management posts is anticipated to mirror the new organisational model.
- 4) **Entrepreneurial Activities** – generation of additional income through commercial activities, better use of our assets and improved performance (e.g. recycling rates).

4.24 A summary of the total anticipated savings from the programme is as follows:

	2013/14 £	2014/15 £	2015/16 £
New Ways of Working:			
Customer Service Transformation Project	0	250,000	250,000
Efficiency Reviews:			
Back Office Review	313,000	591,000	591,000
Universal Credit	0	200,000	200,000
Procurement Review	200,000	200,000	200,000
Town Hall Project	0	100,000	100,000
Management Restructure	0	0	230,000
TOTAL	513,000	1,341,000	1,571,000

Customer Service Transformation Project

4.25 The Council's Corporate Plan 2013-2016 sets out our commitment to modern and effective customer services that meet at least 80% of our customers' needs at the first point of contact.

4.26 The project is divided into three work streams:

- 1) **Work Stream 1: People** – This work stream primarily focuses on communication with staff and Members and the recruitment of staff for the new Customer Contact Service.
- 2) **Work Stream 2: Process** – This work stream is focused on understanding high volume enquiry types and ensuring the

resolution process is efficient and effective. Process maps are being developed to provide a framework for enquiry resolution within the new Customer Contact Service.

- 3) **Work Stream 3: Physical** – This work stream is focused on technology and the office and reception space. The new Customer Contact Service will be located within the Town Hall. The office space and reception area are being prepared to maximise the use of the space and ensure the environment is inviting for customers. The technology required to operate the new Customer Contact Service is currently undergoing testing.

4.27 Through the introduction of the new Customer Contact Service the Council is committed to reduce current expenditure by £250,000 per annum. This will be achieved by:

- Lower transaction costs by encouraging customers to shift to less costly contact channels e.g. Self-Service.
- Increased economies of scale through generic front of house and telephony services, reducing the total number of staff required to provide these services.
- Streamlined processes for more efficient enquiry handling including the integration of IT systems removing the need for resource intensive manual intervention.
- Reduction in repetition caused by numerous staff 'touching' a query.

Efficiency Reviews

4.28 Over recent years, a number of changes have been introduced, and these, together with a continued reduction in funding mean that the Council must review its back office (support service) functions to ensure that they support the delivery of efficient and effective services.

4.29 Examples of such changes include:

- A drive from the Administration to reduce back office costs and reinvest valuable resources in front line services.
- The disbanding of the Audit Commission and an end to their inspection work;
- A shift towards "hosted" IT solutions, placing less reliance on in-house teams;
- Development of employee/manager self serve systems, particularly around the areas of HR and Payroll;
- A shift towards more electronic enabled systems to speed up transactions and processes.

- 4.30 The work on the Back Office Reviews has almost finished and has included extensive consultation with employees. The key outcomes of the Reviews are:
- A recognized need for a dedicated Business Transformation Team which will lead the organization through its transformation agenda and to deliver the vision for the future.
 - The creation of a Strategic Asset Management Team to advise the Council on how to get the best use and value from assets.
 - The realignment of support for Officers and Members including Governance and administrative business support.
 - A more focused and streamlined ICT Service which will support the delivery of the transformation programme, whilst recognising the need for more agile working solutions.
 - Realigned roles and responsibilities within the Corporate Leadership Team to support the Transformation Agenda and delivery of the Corporate Plan.
 - Alternative service delivery models agreed for Payroll and Internal Audit.
 - Full procurement exercise underway to market test future service delivery arrangements for HR.
 - An interim shared service arrangement with Barking & Dagenham and Thurrock Councils for Legal Services is being trialled.
- 4.31 As part of the Outline Business Case agreed in February 2013, a total of 12 posts were identified to be removed from the organization. At the time of writing this report, there has been a net reduction in posts of 11. Of these, there were 3 voluntary redundancies, 1 voluntary resignation and 2 compulsory redundancies. The remaining 5 were vacant posts in the organization. The total redundancy costs are £112,000 and these one off costs have been met from the Organisational Transformation Reserve.
- 4.32 The total savings achieved through the Back Office Review for 2013/14 is £379,000, compared to a target of £313,000. For 2014/15, the on-going, full year value of these savings is £596,000 compared to a target of £591,000.
- 4.33 For 2014/15 and beyond, the Council has a further target of £200,000 which was originally planned to be triggered by the roll out of Universal Credit. However, since the roll out has been deferred, the Council will now undertake an independent review to evaluate the current service provision and consider the options available for future service delivery.

Procurement Review

- 4.34 A Procurement Review has been undertaken which covered the following areas:

- Analysis of spend and current contracts.
- Review of Procurement Strategy and Contract Standing Orders.
- Providing greater access to contracts valued between £10,000 and £50,000 for local suppliers through the Council's website.
- Review of Contracts Register.

4.35 As a result of the review, the following savings have been achieved, against an annual target of £200,000:

Procurement Savings	2013/14 £	2014/15 onwards £
Renegotiated Contracts	64,710	111,510
Smarter Procurement	62,250	36,250
Alternative Service Delivery	78,200	113,200
TOTAL	205,160	260,960

Town Hall Project

- 4.36 The Town Hall refurbishment project was agreed by Members at the Extraordinary Council meeting held on 11 September 2013. Since then we have discussed opportunities with other parties to further maximize space utilization –ranging from moving the Registrars into the Town Hall and conducting civil ceremonies in the Chamber and the potential of the YMCA running a nursery/crèche. The Local Services Framework could also see strategic partners like the Job Centre move into the Town Hall (early 2015) with the benefit of supporting the newly created Customer Service Centre and introducing additional rental income. Discussions with Chromex have also resulted in the potential to take advantage of economies in scale on the cost of refurbishment which could save time and reduce cost.
- 4.37 Due to the lead in time, the savings from this project are not anticipated to materialize until early 2015. The savings profile for the MTFP will therefore need to be adjusted accordingly.

Management Restructure

- 4.38 As the Council changes shape and adopts new ways of working, a new Senior Management structure will be required. The current structure will need to be agile and flexible over the next 2 years to cope with the change. It is anticipated that there will be a further reduction in management posts from 2015/16.

Entrepreneurial Activities

4.39 In Summer 2013 the Council commissioned the East of England Local Government Association (EoE LGA) to investigate and provide preliminary views on the possible commercialisation of a range of services currently provided by the Council. It was further agreed that the Business Transformation Team would explore each recommendation in the initial report and develop a detailed business case for each entrepreneurial activity.

4.40 The project will be delivered in four phases:

Phase I – Explore

- Discovery/Research/Exploration of the existing landscape and current knowledge.
- Data-mining and defining the ‘As-Is’ model for each of the key activity areas.
- Engagement with stakeholders.
- Data consolidation and review.

Phase II – Design

- Development of benefits case and articulating case for change.
- Vision and strategy setting.
- Consensus building and agreeing principles within Service teams and across the political landscape of the Council.
- Development of Activity/Delivery plan.
- Service design and operating model.
- Performance framework.

Phase III – Implement

- Implementation planning.
- Mobilisation.
- Implementation.

Phase IV – Recalibrate

- Review the impact and evidence of transformation under the project.
- Put in place suitable success measures and triggers to analyse the performance of designed and redesigned services generating income.
- Put in place suitable systems to identify, scope and innovate further opportunities for income generation.

4.41 The EoE LGA report breaks down entrepreneurial activity into two areas of focus:

- 1) New commercial services.
- 2) Commercialisation of existing services by reviewing its charging and streamlining service delivery.

- 4.42 As part of the business case development, initial estimates sighted by the EoE LGA will be reviewed to gain a firmer view of the potential revenue generation opportunities. It is however anticipated that the Council will see part year increases in revenue through the commercialisation of existing services within 2014/15. The potential for the generation of revenue through new commercial activity is also being explored, although it is likely that increase in revenue in this area will not be seen until 2015/16. No savings/income targets have been included within the MTFP at this stage.

Projected Outturn 2013/14

- 4.43 The estimated forecast for the General Fund is a balanced budget position as at 31 March 2014. This compares favourably to the original anticipated funding gap of £477,600 and will deliver a working balance at the end of the financial year of some £3.6 million.
- 4.44 The table below outlines the key variances:

Service Pressures:

Budget	(Under)/Over Spend £	Explanation
Housing Benefits – Overpayments Recovered	59,000	The budget has been amended in line with 2012/13 outturn to present a more realistic projection.
Net Subsidy Received	71,000	The net subsidy has been amended to reflect the Mid Year Subsidy Estimates.
Homelessness	50,000	Additional resources required to support Homelessness Initiative Projects.
Office Accommodation – Business Rates	22,000	Revaluation pending to reflect actual space usage by the Council.
TOTAL	202,000	

Corporate Pressures:

Budget	(Under)/Over Spend £	Explanation
Pay Award	50,000	The pay award was agreed for 2013/14 at 1.5%.
TOTAL	50,000	

Income and Savings:

Budget	(Income/Savings) £	Explanation
Additional savings identified through the New Ways of Working	(66,000)	As outlined in the report, Back Office Review and Procurement Savings have exceeded target.
Contingency for Subsidence Claim	(75,000)	Claim settled at the end of 2012/13 – therefore contingency no longer required.
Street Services – Employee Costs	(130,000)	A management restructure within the service has led to this projected saving.
Vehicle Fleet Management	(124,000)	Duplicate Leasing budgets have been removed.
Sports and Social Venues	(15,000)	Income is forecast to be higher than originally anticipated.
Building Control	(30,000)	Income is forecast to be higher than originally anticipated.
Land Charges – Software	(35,000)	An alternative solution has been identified for a data transfer to IDOX project.
Land Charges – Income	(15,000)	Income is forecast to be higher than originally anticipated.
Homelessness	(35,000)	Net income received is higher than anticipated.
Housing General Fund Properties - Income	(33,000)	Rent increase agreed in March 2013 was not reflected in the original budget.
Licensing – Income	(38,000)	Income is forecast to be higher than originally anticipated.

Council Tax - Agency Income	(145,000)	The additional income (arising from technical changes) received from the Sharing Agreement with the Major Preceptors is higher than anticipated, together with additional funding for the Local Council Tax Support Scheme.
TOTAL	(741,000)	

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

- 4.45 The Overview and Scrutiny Committee received MTFP Update Reports on 26 November 2013 and 22 January 2014 and provided the following feedback:
- Whether there was provision within the MTFP to deal with unlawful incursions.
 - Whether there were any plans to address the recruitment and retention issues within the Planning Department.
 - Whether there was sufficient capacity within Community Safety to deliver their work programme.
 - Whether additional work/resources are required on the trees across the Borough, particularly after the recent storm damage.
- 4.46 These issues were considered by Strategy and Policy Board at their meeting on 12 February 2014. The following summarises the feedback from Strategy and Policy, together with additional supporting information.
- 4.46.1 There was support from Strategy and Policy Board to continue with the good work in the area of unlawful incursions. The MTFP includes an annual budget of £20,000 to cover legal/bailiff costs. This is considered sufficient based on previous incidents. However, the working balance will address any unexpected expenditure which cannot be contained within existing budgets.
- 4.46.2 Strategy and Policy Board acknowledge a national shortage in the availability of Planners, and whilst our salaries are in line with other Local Authorities – staff are being attracted to higher salaries in the private sector. The MTFP includes budget provision for all occupied and vacant posts, together with an additional £50,000 per annum to cover any Project Management Support or recruitment incentives such as training packages.
- 4.46.3 The Board acknowledged the excellent work undertaken in the area of Community Safety, and recognized that the work programme was indeed challenging for one member of staff. The investment proposals

below include an additional amount of £25,000 per annum to increase the resource capacity.

4.46.4 The Board supported the requirement for additional work on trees in light of recent weather conditions. Funds have previously been allocated in this area to address backlog works, however it is proposed to allocate an additional £50,000 (one-off) for pre-emptive work in this area.

4.47 In addition to the above, budget bids were invited for consideration. These bids were then evaluated by a Budget Panel comprising of Lead Members and Officers to determine if they supported the delivery of the Corporate Plan priorities and /or statutory duties of the Council.

4.48 The resultant new investment proposals are set out below:

Description	2014/15 £	2015/16 £	2016/17 £
Investment in "Street Scene and Environment"	90,000	0	0
Investment in developing "A Prosperous Borough"	181,500	175,000	175,000
Investment to support "Localism" across the Borough	30,000	0	0
Investment to support "A Safe Borough"	25,000	25,000	25,000

4.49 The positive results achieved in Year 1 of the Transformation Programme have enabled the Administration's vision for redirecting valuable resources to front line services to be realized and to pass on some of the savings to Taxpayers in the form of a Council Tax reduction.

4.50 The funding position of the Council (after taking into consideration the investment proposals above) for the period 2013/14 – 2016/17 is set out below:

	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Total General Fund Gross Expenditure:	34,076,083	33,905,724	33,384,271	33,555,240
Total General Fund Income	(23,802,633)	(23,556,620)	(23,170,350)	(23,042,660)
Total Net Forecast Spend	10,273,450	10,349,104	10,213,921	10,512,580
Total Funding	(10,273,450)	(9,980,568)	(9,737,300)	(9,653,160)
Funding Gap / (Surplus)	0	368,536	476,621	859,420
Anticipated Savings	Included above	(450,000)	(680,000)	(680,000)
Net Funding Gap / (Surplus)	0	(81,464)	(203,379)	179,420
Working Balance b/wd	3,648,855	3,648,855	3,730,319	3,933,698
Working Balance c/wd	3,648,855	3,730,319	3,933,698	3,754,278

- 4.51 In addition to the investments outlined in para 4.48 above, the Council will set aside funds to support the development of William Hunter Way. Following the decision to terminate the agreement with Stockland, the Council will need to earmark resources to fund the professional costs associated with a full procurement exercise. The funding for this is set out within the General Fund Working Balance section of this report.
- 4.52 The Council will continue to face financial challenges, particularly since further year on year funding cuts are inevitable, and decisions over future arrangements for New Homes Bonus Grants are reviewed by the Government. The table above shows that the Council must consider its position carefully for 2016/17 and beyond. This will need to form part of the new Corporate Plan.

General Fund Working Balance

- 4.53 The General Fund 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. It should not, however, be used to fund on-going spend initiatives.

- 4.54 General guidance and practice amongst other authorities varies. Options include 5% of Gross Operating Costs and 25% of Net Spending Requirement to be maintained as a minimum. For Brentwood, this would equate to a minimum reserve level ranging from £1.8 million to £2.8 million. However, individual risk assessments undertaken at a local level are considered best practice.
- 4.55 As part of the Budget and Council Tax Setting process in February 2013, the Council agreed that the General Fund Working Balance would be maintained at a minimum level of £2.5 million to mitigate against the combination of known risks. A risk assessment for 2014/15 has reaffirmed that this remains a reasonable minimum level for the Council.
- 4.56 As outlined in para 4.51, the Council will be undertaking a comprehensive procurement exercise in relation to the development of William Hunter Way. The detailed costs of this work are, as yet unquantified, and indeed unclear as to whether any will be rechargeable to prospective developers. To this end the Council will earmark funds from the Working Balance to support this work (up to a maximum of £1.2 million). This value is based on independent advice and market norms. At this level, the potential spend will not erode the minimum level of Working Balance of £2.5 million level. The accounting treatment of this will be considered again as part of the Half Year Budget Review to see if realistic estimates can be incorporated into the main budget.

Earmarked Reserves

- 4.57 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. A schedule of the Earmarked Reserves is attached as Appendix 1 to this report.

Council Tax Base and Collection Rate

- 4.58 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.
- 4.59 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 2014/15 is 30,893.4. This compares to a figure of 30,847 for 2013/14.

- 4.60 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

- 4.61 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 £300,000 to be distributed in respect of Council Tax by 31st March 2014. This will be distributed as follows:

Authority	Amount £
Brentwood Borough Council	36,588
Essex County Council	221,112
Police and Crime Commissioner	28,786
Essex Fire Authority	13,514

- 4.62 The Council must take the amount of £36,588 into account when it sets its element of the Council Tax for 2014/15.
- 4.63 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 2014/15 to reduce our Council Tax Requirement for that year.

Council Tax Referendums

- 4.64 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.
- 4.65 A Council Tax referendum principle of 2% will apply for 2014/15. This will apply to all principal Local Authorities, Police and Crime Commissioners and Fire and Rescue Authorities.
- 4.66 There are no equivalent limits proposed for Parish and Town Councils for 2014/15, 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 2014/15 for each area is unaffected. This

decision will then be reviewed for future years in accordance with the wider review on Parish Council Funding.

Council Tax 2014/15

- 4.67 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.
- 4.68 Any Authority which freezes or reduces their basic amount of Council Tax in 2014/15 compared to 2013/14 will be eligible to receive a grant equivalent to 1% of the basic amount of Council Tax set for 2013/14. For Brentwood Borough Council this equates to £56,470. For 2014/15, this grant will be payable for 2 years (2014/15 and 2015/16).
- 4.69 The provisional information for 2015/16, is that a similar grant will be payable but for one year only since no guarantees can be made beyond the General Election at this time.
- 4.70 There is an option to increase Council Tax by up to 2%. However the Leader made a pledge in February 2013 to reduce Council Tax and to therefore continue to seek transformation opportunities within the Council rather than seek funding from local residents during these challenging times.
- 4.71 A further factor for consideration is the referendum costs arising from increases greater than 2% which are between £80,000 and £100,000.
- 4.72 It is therefore recommended that Council Tax be **reduced** by 1.5% for 2014/15. As a result of this the Council will be eligible for the Council Tax Freeze Grant.
- 4.73 The full Council Tax resolution is included within a separate report elsewhere on this agenda.

Section 151 Officer’s Assurance

- 4.74 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.
- 4.75 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.

- 4.76 The Council has a good track record of achieving savings, and although the savings target for the medium term is challenging, the estimates are considered to be robust. There are additional savings anticipated from the entrepreneurial activities, many of which are to be fully quantified. Once realised, these will enhance the overall financial position of the Council.
- 4.77 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.
- 4.78 A list of the Council's Earmarked Reserves is attached at Appendix 1. The levels of reserves are considered to be adequate to fund the planned expenditure identified by the Council.
- 4.79 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 £2.5 million during 2014/15. 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 Consultation

- 6.1 The Overview and Scrutiny Committee received MTFP Update Reports on 26 November 2013 and 22 January 2014.
- 6.2 A meeting was held 12 February 2014 with the Federation of Small Businesses and as part of the budget consultation process.
- 6.3 General feedback from residents and partners have also informed the proposals contained within this report.

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

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

Legal Implications

Name & Title: David Lawson, Monitoring Officer

Tel & Email 01277 312743 / david.lawson@brentwood.gov.uk

- 8.2 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.
- 8.3 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.

9 Background Papers

- 9.1 4 September 2013 Strategy and Policy Board – Medium Term Financial Planning Assumptions 2014/15 – 2016/17
- 9.2 18 September 2013 Overview and Scrutiny Committee – Budget Scrutiny Role
- 9.3 20 November 2013 Strategy and Policy Board – Medium Term Financial Plan Update
- 9.4 26 November 2013 Overview and Scrutiny Committee – Medium Term Financial Plan Update

- 9.5 22 January 2014 Overview and Scrutiny Committee – Medium Term Financial Plan Update
- 9.6 12 February 2014 Strategy and Policy Board – Medium Term Financial Plan (General Fund) 2014/15 – 2016/17

10 Appendices to this report

- 10.1 1 – Earmarked Reserves

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General Fund Earmarked Reserves at 31 March 2014

	Balance at 31 March 2013 £'000	To be used in 2013/14 £'000	Balance at 31 March 2014 £'000
Asset Management	118	-	118
Brentwood Community Fund	79	(30)	49
Building Control	64	(4)	60
Community Alarms	259	15	274
Community Rights	13	16	29
Duchess of Kent/Nightingale	367	(12)	355
Economic Development	15	-	15
Electoral Registration	29	-	29
Environmental Change	8	-	8
Financial Management System	69	(69)	-
Funding Volatility	750	-	750
Housing Benefit Subsidy Clawback	200	-	200
Housing Development Fund	50	50	100
ICT Contracts	30	-	30
Neighbourhood Action Team	30	-	30
Neighbourhood Plan	21	-	21
Organisational Transformation	453	(53)	400
Parking Equipment and Machinery	10	-	10
Planning Delivery Grant	48	-	48
Preventing Repossession	30	-	30
Renaissance Group	18	-	18
Single Status and Equal Pay	616	(40)	576
Street Scene Training	2	-	2
Taxi Licensing	20	-	20
Ward Based Budgets	22	(22)	-
Welfare Reform	29	(29)	-
Total	3,350	(178)	3,172

5 March 2014

Agenda Item: 3

Ordinary Council (Budget)

Medium Term Financial Plan (Housing Revenue Account) 2014/15 – 2016/17

Report of: *Jo-Anne Ireland, Director of Strategy and Corporate Services
Malcolm Knights, Head of Housing*

Wards Affected: *All*

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 Community Services Committee and the recommendation of Strategy and Policy Board concerning the proposed level of rent increase for 2014/15.

2. Recommendation(s)

- 2.1 **That the Council approves a level of rent increase for 2014/15 based on the Government formula of RPI + 0.5% + £2 per week (for rents that have not yet converged) as detailed in the report.**
- 2.2 **To note 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:

- From 1 April 2012, the national subsidy scheme ended, so Councils such as Brentwood who paid into the scheme (a "negative subsidy") no longer had to do so. In the last year before self-financing our negative subsidy payment was approximately £4m.
- 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. The major repairs allowance, a capital subsidy from Government worth £1.9million to Brentwood in 2011/12 ceased.
- A sum for depreciation of the stock is required to be included in the accounts.

3.5 For the purposes of the HRA, the following Budget Planning Assumptions have been used:

	2014/15	2015/16	2016/17
General Inflation	2.50%	2.00%	2.00%
Pay Awards (Inflation)	1.00%	1.00%	1.00%

3.6 An analysis of the number of Rent Rebate claimant numbers for Brentwood is shown below:

	March 2011	March 2012	March 2013	March 2014 est
Rent Rebate	1,600	1,610	1,603	1,580

4. Issues, Options and Analysis of Options

Projected Outturn 2013/14

- 4.1 The estimated forecast for the HRA Fund is a potential surplus £1,730 as at 31 March 2014. This compares to an original anticipated funding surplus of £35,100 and will deliver a working balance at the end of the financial year of some £1.8 million and earmarked reserve balance of £2.1 million.
- 4.2 The table below outlines the key variances:

Service Pressures:

Budget	(Under)/Over Spend £	Explanation
Repairs & Maintenance – Responsive Repairs	281,000	Backlog repairs works being undertaken in preparation for the new Repairs and Maintenance Contract. This is offset by a corresponding saving below.
Supervision and Management – Project Management Support	260,000	Consultancy support for Repairs and Maintenance Contract and backfilling permanent staff working on the Contract.
Special Services – Energy Costs	113,700	A number of disputed invoices have now been paid.
Rents, Rates, Taxes – Insurance	20,200	Insurance Premium increase.
Single Status	43,000	Anticipated costs to the HRA of Year 1 implementation of the scheme.
Non Dwelling Income – Garages	56,800	Empty garages have increased, resulting in lower income.
TOTAL	774,700	

Income and Savings:

Budget	(Under)/Over Spend £	Explanation
Council Dwelling Investment Fund	(360,000)	Reduced contribution for 2013/14 to offset the backlog repairs work.
Depreciation & Impairment	(249,000)	Net impact of a change in Depreciation Policy.
Dwelling Income	(37,000)	Empty property allowance has decreased from 1% to 0.07%.
Pension	(116,000)	Pension Accounting Adjustment charged to the Service in error.
TOTAL	762,000	

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

- 4.3 The HRA budget for 2014/15 indicates a surplus of £86,430. The key variations from the 2013/14 projected outturn are:
- The budget for Repairs and Maintenance has reverted to the original budget of £2.6 million, as the Repairs and Maintenance Contract is expected to commence June 2014 and the tenders have been proposed based on the original budget.
 - Energy Costs within Special Services have reduced from 2014/15 due to estimated outturn figures including payments for disputed accounts that have now been settled.
 - Dwelling Rent Income increases by some £631,200 taking into consideration the rent increase proposed within this report.
 - Revenue contributions to earmarked reserves have been increased to £3 million (£500k for Council Dwelling Investment Fund and £2.5 million to the Council Dwelling Development Fund).
- 4.4 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.
- 4.5 HRA fees and charges will increase by 2.5% being the figure agreed at Strategy and Policy Board on 4 September 2013 [Minute 47 refers].

- 4.6 The Strategy and Policy Board on 12 February 2014 approved a revised Housing Revenue Account Business Plan on the basis of the budget forward plan, and this forms a background paper to this report.

HRA Working Balance

- 4.7 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.
- 4.8 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.
- 4.9 The Working Balance can be used to correct inflation assumptions, increase capital spend, repay debt early or to fund new HRA capital projects.
- 4.10 The average working balance for the period 2014/15 – 2016/17 is just under £2.2 million.

Earmarked Reserves

- 4.11 In addition to the HRA Working Balance, the Council keeps three HRA Earmarked Reserves on the Balance Sheet. These Reserves are as follows:
- Carpets for Sheltered Schemes – this reserve will be utilised in 2013/14 to fund the purchase of the carpets in the recently refurbished sheltered scheme.
 - 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 2014 is £640,000. The MTFP assumes annual contributions of £500,000 per annum for the period 2014/15 – 2016/17.
 - Council Dwelling Development Fund – this is a reserve which will be used to support the development of housing in the Borough and assist with future debt repayments. The anticipated balance in this reserve as at 31 March 2014 is £1,500,000. The MTFP assumes annual contributions of £2,500,000 per annum for the period 2014/15 – 2016/17.

Rent Levels 2014/15

- 4.12 For the last four 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.
- 4.13 Although subsidy will no longer exist the Government's national social rent restructuring policy still stands. This policy assumes the following:
- That guideline rents will converge with formula rents in 2015/16.
 - A limit on individual annual rent increases of RPI + 0.5% + £2 per week up to convergence and thereafter for annual increases in formula rents of RPI + 0.5%.
- 4.14 The Government is currently consulting on the proposed rent formula for increases from 2015/16 onwards. This proposes that future rent increases are pegged to a maximum of the Consumer Price Index plus 1%. The implications of this are currently being evaluated.
- 4.15 The rents increase recommended for 2014/15 is in line with the Government's Social Rent Restructuring 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 determination received from Government. The rents increase recommended for garages is in line with the formula rent increase of RPI+0.5%.
- 4.16 The rent year for 2014/15 will commence on 31 March 2014 and finish on 5 April 2015. It will be a 53 week rent year.
- 4.17 The Rent Model for 2014/15 uses the RPI figure at September 2013 of 3.20% plus 0.5%, resulting in a total uplift of 3.70%. This compares to an uplift of 3.10% for 2013/14.
- 4.18 The average proposed increase for 2014/15 is 5.90% and the average rent is £91.54. For 2013/14, the average increase was 3.99% and the average rent was £86.49. A more detailed analysis is attached at Appendix 10.1.
- 4.19 The highest individual percentage increase is 8.03% for six bedsit flats at Drake House, Brentwood the rents of which are proposed to increase from £46.24 to £49.95 per week, an increase of £3.71 per week.
- 4.20 The highest individual cash increase proposed is £7.18 per week (5.13%) on a four bedroom property in Crescent Road.
- 4.21 If the rents are charged at the model's current calculation then the gross income will be £11,961,536 (2013/14 £11,323,400). The allowance for

properties empty (“Voids”) between letting will be 1%, therefore the expected Void budget will be £119,615 (2013/14 £112,960).

Tenant Service Charge Policy

- 4.22 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.
- 4.23 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.
- 4.24 The rolling reconciliation will continue to be applied to service charges in 2014/15. An example of the application of the formula is as follows:

2012/13 Actual	£	7.16
Add 2013/14 RPI + 0.5% increase (3.10%)	£	0.22
	£	7.38
Add 2014/15 RPI + 0.5% increase (3.70%)	£	0.27
2014/15 Service Charge	£	7.65

2014/15 Rent Increase – Options following consultation

- 4.25 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.
- 4.26 Options to reduce the increase could focus on one of two alternatives:
 - Capping the level of the overall increase. If a reduction is to be applied, it is not recommended that this methodology is followed as it would thus exacerbate the problem of non-convergence of rents. This is because this would have the greatest impact on rents which are furthest adrift from target rents, and which therefore need to increase most to put all tenants on an equitable position.

- Reducing the “RPI+” element of the formula. If a reduction is to be applied, it is recommended that this is the fairest approach, as its effect is proportionately the same on all tenants.

4.27 Appendix 10.3 sets out the impact of reducing the “RPI+” element of the formula for 2014/15 on a year on year basis. Strategy & Policy Board at its meeting on 12 February considered these options and recommends to Ordinary Council that the “RPI+” level of rent increase for 2014/15 be approved as RPI + 0.5%, as detailed in Appendix 10.3, having regard to the year on year ongoing financial impact of the options detailed in Appendix 10.3.

Notice of rent increase

4.28 The Council is required to give tenants four weeks notice of rent increase. Consequently notice of rent increase based on the recommendation of the Strategy and Policy Board have been issued to tenants to ensure that if the increase is approved by Ordinary Council on 5 March 2014, it can be implemented on 31 March 2014, the start of the new rent year. If Ordinary Council is minded to approve a different rent increase, a new notice of increase to tenants will need to be issued, and so the increase can only be implemented four weeks from the new notice (i.e. after the start of the new financial year).

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 (Director of Strategy and Corporate Services) 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 The Council is required to compile a budget which collates all 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 increase.

6. Consultation on rent increase

- 6.1 A consultation meeting for tenants on the proposed rent increase was held at the Council Chamber on 10 December 2013. All tenants were invited, and the event was web-cast.
- 6.2 At the meeting, tenants raised concerns about the pressure of rent increases alongside other rises in the cost of living, and how this might increase the number of tenants who are forced to claim housing benefit.
- 6.3 Tenant Talkback was consulted on the likely rent increase prior to its consideration by Community Services Committee. Talkback asked officers to:
- Present a graphical trend of the number of tenants in arrears and the amount of arrears over the last few years. This information is presented in Appendix 10.2 of the report.
 - Prepare a model of rent increase option, and their likely financial impact, for the Committee to consider. This is detailed in paragraphs 4.24 to 4.26 above.
- 6.4 The Community Services Committee considered a report on the proposed rent increase at its meeting on 8 January [Minute 327 refers]. Two members of Tenant Talkback attended as co-opted members of the Committee for discussion of the item. The Committee noted the report and referred the contents of the report to the Strategy and Policy Board for a final decision.

7. References to Corporate Plan

- 7.1 This supports the Council's priorities for Housing Health and Wellbeing and A Prosperous Borough, specifically our objective to provide a broad range of housing in the Borough to meet the needs of our population now and in the future.
- 7.2 Good financial management underpins all priorities within the Corporate Plan.

8. Implications

Financial Implications

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

Legal Implications

Name & Title: David Lawson, Monitoring Officer

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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 2014/15.
- 8.3 **Asset Management implications:** 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.
- 8.4 **Equality and diversity implications:** 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. Background Papers

- 9.1 Environment Health and Housing Board November 2011 Agenda and Minutes.
- 9.2 Special Policy Committee February 2012 Agenda and Minutes.
- 9.3 Community Services Committee 8 January 2014 Agenda and Minutes.
- 9.4 Strategy and Policy Board 12 February 2014 Medium Term Financial Plan (Housing Revenue Account) 2014/15 -2016/17.
- 9.5 Housing Revenue Account Business Plan 2014-2044

10. Appendices to this report

- 10.1 Analysis of Rent Increases / Decreases for 2014/15 (excluding Service Charges)
- 10.2 Trends of numbers of tenants in arrears and total amount of arrears over last five financial years
- 10.3 Impact in Reducing the "RPI +" Element of the Rent Increase Formula for 2014/15 rent increase

Appendix 10.1:

Analysis of Rent Increases / Decreases for 2014/15 (excluding Service Charges)

The rent model has taken RPI for September 2013 as 3.20%. Applying the formula rent calculation from the Rent Restructuring guidance, an average rent increase of £5.06 per week, or 5.90% is proposed for Brentwood Borough Council tenants. Further details are as follows:

Percentage Increase	Average Increase £	Average Increase %	No of Properties
2-3	1.92	2.50	3
3-4	2.73	3.61	38
4-5	3.64	4.48	120
5-6	5.48	5.72	1,426
6-7	4.77	6.36	817
7-8	4.10	7.23	103
8-9	3.71	8.03	6
Total Average	5.06	5.90	2,513

Flats

No of Bedrooms	Average Rent £	Average increase £	Average Increase %	No of Properties
Bedsit	64.66	4.11	6.84	71
1	77.46	4.49	6.19	531
2	84.58	4.95	6.26	507
3	94.41	5.3	5.95	60
Total Average	80.64	4.71	6.25	1,169

Houses/Bungalows

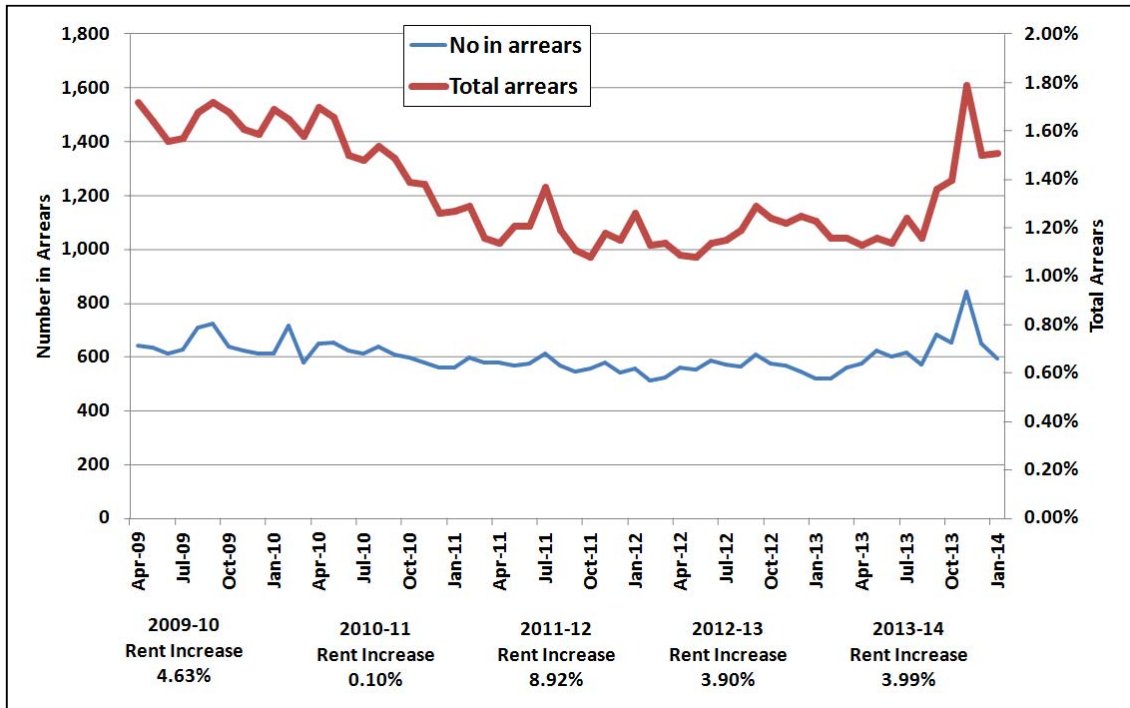
No of Bedrooms	Average Rent £	Average increase £	Average Increase %	No of Properties
Bedsit	67.89	3.4	5.03	47
1	81.65	4.37	5.37	243
2	93.27	5.38	5.77	402
3	103.86	5.84	5.63	637
4	125.56	6.65	5.3	15
Total Average	101.01	5.36	5.6	1,344

Appendix 10.2:

Trends of:

a. Number of tenants in arrears

b. Total cash amount of arrears (expressed as % of annual rent debit)



Appendix 10.3:

Impact in Reducing the “RPI +” element of the rent increase formula within the 2014/15 rent increase

	<u>Uplift</u>	<u>Rent Income</u>	<u>Year on Year Loss</u>
RPI + 0.5%	3.70%	£ 11,961,540	£ -
RPI + 0.25%	3.45%	£ 11,943,744	£ 17,796
RPI	3.20%	£ 11,925,896	£ 35,644
RPI - 0.25%	2.95%	£ 11,907,830	£ 53,710
RPI - 0.5%	2.70%	£ 11,889,423	£ 72,117
RPI - 0.75%	2.45%	£ 11,869,980	£ 91,560
RPI - 1%	2.20%	£ 11,849,892	£ 111,649
RPI - 1.25%	1.95%	£ 11,829,417	£ 132,123
RPI - 1.5%	1.70%	£ 11,808,616	£ 152,924
RPI - 1.75%	1.45%	£ 11,787,328	£ 174,212
RPI - 2%	1.20%	£ 11,764,725	£ 196,815
RPI - 2.25%	0.95%	£ 11,741,624	£ 219,916
RPI - 2.5%	0.70%	£ 11,718,277	£ 243,263
No Increase	0.00%	£ 11,563,550	£ 397,990

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5 March 2014

Agenda Item: 4

Ordinary Council (Budget)

Capital Programme 2014/15 – 2016/17

Report of: *Jo-Anne Ireland, Director of Strategy and Corporate Services*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 To approve the Capital Programme and supporting Strategy for the period 2014/15 – 2016/17.

2. Recommendation(s)

- 2.1 To approve the proposed Capital Programme and Funding for 2014/15 – 2016/17.**

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 with 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.
- 4.3 The Capital Strategy encompasses the Asset Management Plan and the two documents combined explain how the Council will use assets and capital investment to enable the continuous improvement in service delivery.

Funding the Capital Programme

- 4.5 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 2015 in order to meet consultation and approval processes, and so any capital expenditure related to CIL cannot be programmed until then. During 2014/15, 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

- 4.6 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.
- 4.7 On 2nd April 2012 Ministers raised the cap on Right- to-Buy discounts to £75,000 and confirmed the additional sales would be used to fund replacement stock on a one-for-one basis.
- 4.8 At the same time Ministers confirmed that the favoured option for delivering the new homes would be through Local Authorities retaining receipts to spend in their area.
- 4.9 In order for Brentwood to keep these additional receipts, the Council entered into an agreement with the Secretary of State for Communities and Local Government on 26th June 2012.
- 4.10 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.

4.11 A summary of the Retained Receipts for 2013/14 is as follows:

2013/14	April - Jun	Jul - Sep	Oct - Dec	Jan - March	Total
Number of RTBs	2	2	6	4	14
Total Value	235,000	121,600	709,080	410,000	1,475,680
Average Value	117,500	60,800	118,180	102,500	105,406
Value of RTB Retained	72,227	0	400,403	266,940	739,570
Expenditure required	240,757	0	1,334,677	889,800	2,465,234
Date to be spent by	30/06/2016	N/A	31/12/2016	31/03/2017	

4.12 The last quarter in 2013/14 is estimated based on four applications that are likely to be completed before the end of the financial year.

4.13 A forecast of Retained Receipts is as follows:

	2014/15	2015/16	2016/17
Sales	11	11	5
Projected Income	1,110,000	1,110,000	513,614
Projected Retained	466,466	466,466	282,146
Expenditure required	1,554,886	1,554,886	940,486

4.14 2014/15 and 2015/16 sales have been projected to follow the same trend as 2012/13 and 2013/14 due to the discount being offered. 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.

4.15 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.

4.16 In January 2014, the Government announced additional changes as part of their ongoing commitment to keep the RTB scheme under review and to ensure that some eligible tenants are able to realise their home ownership aspirations sooner. The proposed changes are as follows:

- To increase the maximum RTB percentage discount for eligible social tenants in houses to 70% - in line with the maximum discounts for flats. The minimum percentage discount for houses (35% after 5 years tenancy) and the rate of increase year on year (1% each additional year after 5 years) will remain the same.

- To increase the maximum cash cap (£75,000) in line with the Consumer Price Index rate of inflation. This will ensure that discounts remain effective in real terms.

Capital Programme – Projected Outturn 2013/14

4.16 The table below shows the projected spend on the Capital Programme for 2013/14:

Details of Expenditure	2013/14 CURRENT ESTIMATE £	2013/14 ESTIMATED OUTTURN £
Street Scene and Environment	1,015,372	506,730
Localism	209,514	220,800
A Prosperous Borough	113,867	50,470
Housing, Health and Wellbeing	3,797,305	3,865,770
A Safe Borough	733,206	566,712
A Modern Council	4,227,299	730,549
TOTAL EXPENDITURE ON CORPORATE PRIORITIES	10,096,563	5,941,031
Funded by:		
Capital Receipts	(6,286,258)	(2,026,161)
Government Grants	(120,000)	(158,600)
Other Grants and Contributions	(0)	(30,576)
Housing Revenue Account Business Plan	(3,120,000)	(3,535,770)
Contributions from Revenue	(570,305)	(189,924)
TOTAL FUNDING	(10,096,563)	(5,941,031)

4.17 The Current Estimates includes slippage of £1,741,000 from 2012/13.

4.18 The key variances in the projected outturn are as follows:

- Town Hall (£3.4m) - this is as a result of a delay in the commencement of this project. The projected variance is to be carried forward into 2014/15 and it is predicted that it will be fully spent in 2014/15.
- Vehicle Replacement Programme (£368k) - £136k of this variance is due to purchasing vehicles and equipment at a lower price than originally anticipated. The remainder of the variance is due to vehicles that will be ordered late in 2013/14 but not received until after April. This budget will therefore be carried forward.

- Asset Management Strategy (£185k) – reprofiled spend.
 - Green Burials (£100k) – this project is to be incorporated within the Council’s new Local Development Plan in the long term.
- 4.19 The original capital programme for 2013/14 included the potential use of borrowing to fund £3.3m of expenditure. Based on current estimates the Authority will have sufficient capital receipts to fund the capital programme without the need for this additional borrowing.
- 4.20 Total capital receipts of £5.375m are expected to be received over the next two years from disposal of the following properties:
- Hutton Parish Hall
 - Crown Street
 - Warley Training Centre
 - Bellmead – Ingatestone
 - Hallsford Bridge
 - Old House

Capital Programme 2014/15 – 2016/17

- 4.21 As part of the formulation of the future Capital Programme, budget bids were invited for consideration. These bids were then evaluated by a Budget Panel comprising of Lead Members and Officers to determine if they supported the delivery of the Corporate Plan priorities and/or statutory duties of the Council.
- 4.22 The Council will continue its investment in its Housing Stock (estimated at £7.9 million over the next 3 years).
- 4.23 The most significant new investment proposal is linked to the Crossrail Project. As an administrative authority, the Council is keen to influence delivery of the Crossrail project in Shenfield and Brentwood to:
- Ensure construction impacts are adequately mitigated;
 - Work with Crossrail and other partners to minimise disruption during the execution of the works;
 - Represent the views of Brentwood’s residents and businesses to Crossrail;
 - Ensure that the arrival of Crossrail provides benefits to local residents and businesses in terms of improved service and connections;
 - Maximise opportunities in the town centres for retail, economic development/regeneration and a balanced night time economy;

- 4.24 In order to secure these objectives, the Council is proposing to earmark funds of £1.6 million within the Capital Programme.
- 4.25 Other investment proposals are outlined below:

Description	2014/15 £	2015/16 £	2016/17 £
Vehicle/Plant Replacement	456,000	6,000	0
Car Park Refurbishment and Improvement Works	145,000	15,000	0
CCTV Upgrades and Improvements	60,800	5,000	5,000
Play Area Refurbishments arising from the Play Area Strategy	100,000	100,000	100,000
Replacement of Pool Plant at Brentwood Centre	100,000	0	0
Additional funding to support increased demand for Disabled Facilities Adaptations	30,000	30,000	30,000

- 4.26 The other significant scheme within the existing Capital Programme for 2014/15 is the Town Hall Delivery Project (£3,471,000 - which includes a projected carry forward from 2013/14 of £3,411,090).
- 4.27 Assuming all of the proposals are approved, the total investment for the 3 year programme will be £15,421,280 and funding will come from:
- Capital Receipts £7,257,280
 - Grants £ 360,000
 - HRA £7,804,000

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

Name & Title: Jo-Anne Ireland, Director of Strategy and Corporate Services

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- 8.1 The financial implications are detailed within the report.

Legal Implications

Name & Title: David Lawson, Monitoring Officer

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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 2014/15 – 2016/17.

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Ordinary Council (Budget)

Treasury Management Strategy Statement 2014/15

Report of: Jo-Anne Ireland, Director of Strategy and Corporate Services

Wards Affected: All

This report is: Public

1. Executive Summary

- 1.1 The report outlines the Treasury Management Strategy for 2014/15 and associated Prudential Indicators.

2. Recommendation(s)

- 2.1 That the Treasury Management Strategy and Prudential Indicators for 2014/15 – 2016/17 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 Issues, Options and Analysis of Options

Capital expenditure plans and Prudential Indicators 2014/15-2016/17

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 borrowing need.

	2013/14 Original £m	2013/14 Projected £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Non HRA	5.001	2.405	6.676	0.406	0.385
HRA	3.120	3.536	2.803	2.578	2.573
Total Expenditure	8.121	5.941	9.479	2.984	2.958
Financed by:					
Receipts, Grants and Contributions	5.001	5.941	9.479	2.984	2.958
Borrowing requirement	3.120	0	0	0	0

4.3 The borrowing requirement for the 2013/14 original programme is no longer required as revenue contributions from the HRA will be used to finance the HRA capital expenditure. From 2014/15 it is estimated that all new capital spend will be financed by receipts, grants and contributions with no increase in the Council's borrowing requirement.

4.4 Long term borrowing rates are currently around 4.36% and short term investment rates at around 0.50%, it therefore 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 are 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 £0.062m 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:

	2013/14 Original £m	2013/14 Projected £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital Financing Requirement:					
CFR – Non Housing	6.616	7.873	7.857	7.838	7.825
CFR – Housing	64.166	70.347	70.347	70.347	70.347
Total CFR	70.782	78.220	78.204	78.185	78.172
Movement in CFR	0.070	(0.049)	(0.016)	(0.019)	(0.013)
Movement in CFR represented by:					
Net financing need for the year	0.125	0	0	0	0
Less MRP	0.055	0.049	0.016	0.019	0.013
Movement in CFR	0.070	(0.049)	(0.016)	(0.019)	(0.013)

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:

	2012/13 Actual £m	2013/14 Projected £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Investments	2.160	0.800	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.

	2013/14 Original	2013/14 Projected	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	0.64%	1.01%	1.42%	1.40%	1.45%
HRA	0.88%	16.13%	16.10%	16.10%	16.10%

4.13 The ratio of the HRA has 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.

4.14 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

4.15 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.

	2013/14 Original	2013/14 Projected	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
All borrowing has been factored into the prudential indicators. Council Tax – Band D	£0.07	£0.00	£0.00	£0.00	£0.00

- 4.16 The additional cost to Council Tax in the 2013/14 Original calculation relates to the potential borrowing requirement for the Capital Programme. As capital expenditure is expected to be fully funded from resources such as grants and capital receipts the increase in costs is calculated at nil.

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

- 4.17 Similar to the Council Tax calculation, 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.

	2013/14 Original	2013/14 Projected	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Weekly Housing Rent levels	£4.70	£0.00	£0.00	£0.00	£0.00

- 4.18 The additional cost to HRA rents reflects the increase in revenue costs due to borrowing for the HRA capital programme. As 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.
- 4.19 This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

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.

- 4.23 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.
- 4.24 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.
- 4.25 To reflect the above the Council is recommended to approve the following MRP statement:
- 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

- 4.26 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.
- 4.27 The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised in the following table. This shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

	2012/13 Actual £m	2013/14 Projected £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
External Debt:					
Debt at 1 April	70.728	68.264	66.215	66.199	66.180
Expected change in Debt	-2.464	-2.049	-0.016	-0.019	-5.013
Debt at 31 March	68.264	66.215	66.199	66.180	61.167
The Capital Financing Requirement	78.353	78.220	78.204	78.185	78.172
Under / (over) borrowing	10.089	12.005	12.005	12.005	17.005

Total investments at 31 March:					
Investments	2.160	0.800	0	0	0
Investment change	-1.240	-1.360	-0.800	0	0

Net Debt	66.104	65.415	66.199	66.180	61.167
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4.28 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 2014/15 and the following two financial years. This control ensures that borrowing is not undertaken for revenue purposes.

4.29 The Director of Strategy and Corporate Services 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

4.30 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.

	2013/14 Projected	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Debt	£83m	£83m	£83m	£83m
Other long term liabilities	£ 2m	£ 2m	£ 2m	£ 2m
Total	£85m	£85m	£85m	£85m

The Authorised Limit for External Debt

- 4.31 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.

	2013/14	2014/15	2015/16	2016/17
Debt	£84m	£84m	£84m	£84m
Other long term liabilities	£ 3m	£ 3m	£ 3m	£ 3m
Total	£87m	£87m	£87m	£87m

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

	2012/13	2013/14	2014/15	2015/16
HRA Debt Limit	£72m	£72m	£72m	£72m

Interest Rate Projections

- 4.33 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 gives the 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 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

- 4.34 The economic crisis which started in 2008 was the most severe in recent history, and stabilising the economic environment has taken several years. However, growth has returned during 2013 and exceeded all expectations. Forward surveys indicate that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction.
- 4.35 In the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods. Investment returns are likely to remain relatively low during 2014/15 and beyond.
- 4.36 Borrowing interest rates have risen significantly during 2013 and are on a rising trend. 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 even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future. There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Borrowing strategy

- 4.37 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 December 2013 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

4.38 Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Director of Strategy and Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Treasury Management Limits on Activity

4.39 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.

	2014/15	2015/16	2016/17
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%	10%	
12 months to 2 years	0%	10%	
2 years to 5 years	0%	20%	
5 years to 10 years	0%	20%	
10 years and above	0%	100%	

Policy on borrowing in advance of need

4.40 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

4.41 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).

4.42 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).

4.43 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.

- 4.44 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

- 4.45 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.
- 4.46 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. 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.
- 4.47 Further, the Council recognises that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which they operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 4.48 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.
- 4.49 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

4.50 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.

4.51 The Director of Strategy and Corporate Services 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.

4.52 The minimum rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, then the institution will fall outside the lending criteria.

4.53 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.

4.54 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
 - iii. Viability / financial strength – C (Fitch / Moody's only)
 - iv. Support – 3 (Fitch only)
- 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 The Co-operative 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

4.55 No funds will be placed outside the UK.

4.56 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.

4.57 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, C 3	£3m	1yr
Banks 2 Part Nationalised: Bank of Scotland plc Lloyds TSB 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): Co-Operative Bank	F1, 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

4.58 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).

4.59 Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

4.60 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.

4.61 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 0.50%
- 2015/16 0.50%
- 2016/17 1.00%
- 2017/18 2.00%

4.62 The Council has no investments with Icelandic banks.

4.59 A schedule of the investments held by the Council as at 31 December 2013, is shown below:

Date Invested	Date to be Repaid	Invested With	Investment Amount £	Interest Rate
02/04/13	20/01/14	Bank of Scotland	1,000,000	0.95%
03/04/13	28/03/14	Bank of Scotland	1,000,000	1.10%
05/04/13	03/03/14	Bank of Scotland	1,000,000	1.01%
10/04/13	03/03/14	Bank of Scotland	1,000,000	1.05%
15/05/13	03/03/14	Bank of Scotland	1,000,000	0.90%
29/10/13	N/A	Royal Bank of Scotland	165,000	0.60%
20/12/13	N/A	Royal Bank of Scotland	390,000	0.60%
23/12/13	N/A	Royal Bank of Scotland	160,000	0.60%
30/12/13	N/A	Royal Bank of Scotland	300,000	0.60%
31/12/13	N/A	Royal Bank of Scotland	200,000	0.60%
TOTAL			6,215,000	

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

4.60 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.

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

Maximum principal sums invested > 364 days			
£m	2014/15	2015/16	2016/17
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, Director of Strategy and Corporate Services

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8.1 The financial implications are fully outlined in the report.

Legal Implications

Name & Title: David Lawson, Monitoring Officer

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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 6 November 2013 – Policy and Resources Committee Treasury Management Mid Year Review 2013/14
- 9.2 12 February 2014 – Strategy and Policy Board Treasury Management Strategy Statement 2014/15

10 Appendices to this report

- 10.1 None.

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5 March 2014

Agenda Item: 6

Ordinary Council (Budget)

Pay Policy 2014/15

Report of: David Lawson, Monitoring Officer

Wards Affected: All

This report is: Public

1. Executive Summary

- 1.1 Council is asked to agree the draft Pay Policy 2014/15 as attached at Appendix 1 in accordance with Section 38(1) of the Localism Act 2011.

2. Recommendation

- 2.1 To agree the draft 2014/15 Pay Policy Statement as set out in Appendix 1

3. Introduction and Background

- 3.1 Section 38(1) of the Localism Act 2011 requires all English and Welsh Councils to produce a Pay Policy Statement for each financial year.
- 3.2 Regard is to be had to any guidance from the Secretary of State in producing the statement.
- 3.3 The pay policy statement:
- Must be approved by the Full Council
 - Must be approved before the end of March each year
 - May be amended during the course of the financial year
 - Must be published on the Council's website

4. Issue, Options and Analysis of Options

- 4.1 Guidance on the Pay Policy Statement also refers to accountability.
- 4.2 The existing guidance makes it clear that Full Council should be given the opportunity to vote before large salary packages offered in respect of a new appointment.

- 4.3 The guidance states that the Secretary of State considers that £100,000 is the right level for that threshold to be set and remains the same.
- 4.4 There is currently no intention of any new appointment over £100,000
- 4.5 Full Council approved a motion in October 2013 that the final decision on the pay of a future Managing Director and all staff that are set to receive a package that totals above £100,000 per annum in basic salary and bonus provision rests with Full Council.
- 4.6 The guidance also requires authorities to offer Full Council the opportunity to vote before large severance packages beyond a particular threshold are approved for staff leaving the organisation.
- 4.7 As with salaries on appointment, the Secretary of State considers that £100,000 is the right level for that threshold to be set.
- 4.8 There is currently no intention to offer any severance package over £100,000.
- 4.9 The Pay Policy Statement must include the Council's policy on the level and elements of remuneration of chief officers, the remuneration of the lowest paid employees and the relationship between chief officer's remuneration and that of other officers.
- 4.10 The draft Pay Policy Statement 2014/15 sets out the Council's current approach to pay and reward and has been updated in light of the recently completed Single Status exercise.

5. Reasons for Recommendation

- 5.1 The draft Pay Policy Statement 2014/15 meets the statutory criteria and guidance from the Secretary of State and is a statutory requirement.

6. References to Corporate Plan

- 6.1 Producing a Pay Policy Statement is a statutory requirement but also meets the objective of being a Modern Council.

7. Implications

Financial Implications

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- 7.1 There are no direct financial implications arising from the production of the Pay Policy Statement.

Legal Implications

Name & Title: David Lawson, Monitoring Officer

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- 7.2 A Pay Policy Statement is required under Section 38(1) of the Localism Act 2011.

8. Appendices to this report

- 8.1 Draft Pay Policy Statement 2014/15

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DRAFT Brentwood Borough Council Pay Policy Statement 2014/15

Introduction

Section 38 (1) of the Localism Act 2011 required all English and Welsh Councils to produce a Pay Policy Statement for 2012/13 and for each financial year thereafter. Regard is to be had to any guidance from the Secretary of State in producing this statement.

The Pay Policy statement:

- Must be approved formally by the Full Council.
- Must be approved by the end of March each year.
- May be amended during the course of the financial year.
- Must be published on the Council's website.

Nothing in this Pay Policy Statement enables unilateral changes to employees' terms and conditions of contract. Changes to terms and conditions of employment must follow consultation and negotiation with individuals and recognised trades unions as set out in agreements and in line with legislation.

Objectives of the Policy

Brentwood Borough Council provides a wide range of services to residents, businesses and visitors in the Borough. To be able to provide those services we depend on our employees. As at 7 February 2014 the Council employed 380 employees.

In setting the Pay Policy the Council is mindful of the following objectives:

1. Recruit and retain appropriately experienced and qualified employees to ensure a capable and high performing workforce. In respect of all employees the Council's policy is to set remuneration sufficient to attract and retain adequately experienced, trained and qualified individuals to deliver the Council's priorities.
2. Simplicity, clarity and fairness between employees and between the Council and the community. The Council aims to be transparent on pay to its staff, prospective staff and the wider community.
3. To differentiate between remuneration and other employee related expenses. The Council will meet or reimburse authorised travel, accommodation and subsistence costs for attendance at approved business meetings and training events. The Council does not regard such costs as remuneration but as non pay operational costs. This policy is applied consistently to the

Managing Director, Chief Officers and other employees.

Scope

The statutory Pay Policy statement must include the Council's policy on:

- The level and elements of remuneration of chief officers.
- The remuneration of the lowest paid employees.
- The relationship between chief officers' remuneration and that of other officers.

The Act defines remuneration widely, to include not just basic pay but also:

- allowances including car allowances and training expenses, benefits in kind, increases in/enhancements of pension entitlements, and termination payments.

The following posts are regarded as chief officers for the purpose of this statement:

- Managing Director
- Director of Strategy and Corporate Services
- Head of Legal and Support Services
- Head of Borough Health, Safety and Localism
- Head of Housing Services
- Head of Business Transformation
- Head of Planning
- Head of Street Scene

Senior Management

The Council's chief officer pay structure is set out in Appendix 1a (Bands M-N).

In terms of the Managing Director's contract, any Performance Related Pay is clearly linked to achievement of agreed targets and subject to recommendation from the Independent Senior Officers' Remuneration Panel. Council agreed the creation of an Independent Senior Officers' Remuneration Panel in December 2012. The Terms of Reference for the Panel are attached as Appendix 1b.

For Heads of Service annual progression within the grades is subject to annual performance reviews.

The remuneration of all Chief Officers and Senior Officers will be published in the Council's Annual Statement of Accounts which also includes a wide range of financial information.

Appointments with a salary over £100,000

The post of Managing Director is the only post within the authority with a salary grade above £100,000. In accordance with government guidance and the motion agreed by Full Council in October 2013, any future intention to offer a salary for a new appointment above £100,000 will be at the vote of Full Council.

Returning/Acting Returning Officer

The Managing Director undertakes the roles of Returning and Acting Returning Officer in respect of local, national and European elections. The Returning/Acting Returning Officer is an officer of the Borough Council who is appointed under the Representation of the People Act 1983.

Whilst appointed by the Borough Council, the role of the Returning Officer is one which involves and incurs personal responsibility and accountability and is statutorily separate from his/her duties as an employee of the Borough Council. As Returning Officer, he/she is paid a separate allowance for each election for which he/she is responsible.

Definition and Remuneration of Lowest paid Employees

The Council has recently concluded the Single Status agreement for the whole authority. This affects all staff below the Director of Strategy and Corporate Services. Single Status meets the key objective of equal pay for jobs of equal value via the introduction of formal job evaluation. The Council has modernized its pay structure, ensuring that the pay and reward strategy supports flexible working and modern service delivery. This has been achieved through an integrated pay scale, a review and rationalisation of allowances and a harmonization of terms and conditions of service. The Single Status agreement has been implemented as of 1st October 2013.

The Council's lowest pay grade is A of which 14 employees are on this grade.

Relationship between Chief Officers' pay and all other employees.

Negotiation and consultation is conducted at a local level in relation to levels of pay and benefits for all employees. The Council therefore is not part of any national terms and conditions for local government employees.

Local negotiations around a pay review are conducted on an annual basis, and any increase is agreed taking into account inflationary factors, local salary levels, affordability and any national award. The public sector has experienced a pay freeze since 2010. However in 2013 a national pay award of 1% was agreed. Trade Unions and the Staff Forum rejected the 1% offer and after negotiations with Members agreed a local pay award of 1.5% for all staff up to the Managing Director.

The idea of publishing the ratio of pay of an organisation's top earner to that of its median earner has been recommended to support the principles of Fair Pay (Will Hutton 2011) and transparency.

The Council does not currently explicitly set the remuneration of any individual or group of posts by reference to a simple multiple of another group of posts.

- The ratio of the Managing Director (top earner) salary to the median salary, (£20,061), is 5.1:1.
- The ratio of the Managing Director (top earner) salary to the lowest salary, (£14,748), is 6.92:1.

The Council's pay scales are published at Appendix 1a.

Expenses and Other Benefits

Employees covered by the scope of this policy are entitled to the following:

- Reimbursement of travel as per the approved Mileage and Car Allowance Policy December 2013.
- Reimbursement of subsistence as per the guidelines for travel and subsistence.
- Car allowance as per the approved Mileage and Car Allowance Policy December 2013.
- Payments under the eye test scheme as set out in the April 2011 procedure document.
- Participation in the Council's childcare voucher scheme in conjunction with KiddiVouchers childcare voucher scheme.
- Subject to the schemes' rules and conditions staff can participate in the car loan facility and season ticket loan facility
- For those staff who are required to be a member of a professional association as a requirement of their employment the Council will meet the cost of subscription as per the December 2006 policy.

Redundancy payments and payments on termination

The Council has a single redundancy scheme which applies to all employees without differentiation which is set out in the *Organisational Change Policy*.

The Council does not provide any further payment to employees leaving the Council's employment other than in respect of accrued leave which by agreement is untaken at the date of leaving.

Where termination of employment is subject to a compromise agreement that agreement may include a negotiated payment in exchange for which the employee undertakes not to pursue claims against the Council.

Severance packages over £100,000

In line with guidance from government any severance packages over £100,000 would be subject to a vote of Full Council.

The Local Government Pension Scheme (LGPS) and policy with regard to the exercise of discretions

Pension provision is an important part of the remuneration package. Employees who are eligible may join the local government scheme. The scheme is a statutory scheme with contributions from employees and from employers.

New staff who are not already members of the LGPS are now subject to auto enrolment into the LGPS. Existing staff employed at 1 January 2014 are deferred until October 2017.

The LGPS provides for the exercise of discretion that allow for retirement benefits to be

enhanced. The Council will consider each case on its merits but has determined that its usual policy is not to enhance benefits for any of its employees.

The pension scheme provides for flexible retirement. In applying the flexible retirement provision no distinction is made between the Managing Director, chief officers and other employees.

Publication and access to information

The publication of and access to information relating to remuneration of chief officers will be set out in this document and published on the Council's website on the 'People's Right to Know' page.

The Council will publish the salary ranges covering all employees on the Council's website on an annual basis.

Where employees have been transferred into the Council under the Transfer of Undertakings (Protection of Employment) Regulations 2006 their remuneration packages reflect their protected rates of pay.

Review

The Localism Act 2011 requires relevant authorities to prepare a Pay Policy Statement for each subsequent financial year. Our next statement is scheduled for 2015/16 and will be submitted to Full Council for approval by 31 March 2015.

If it should be necessary to amend this 2014/15 Statement during the year it applies, an appropriate resolution will be made by Full Council.

Brentwood Borough Council Pay Grades Post Single Status - Pay Structure DECEMBER 2013

SCP	Salary**	Monthly	NJC					HAY								Hourly rate*		
			Grade A	Grade B	Grade C	Grade D	Grade E	Grade F	Grade G	Grade H	Grade I	Grade J	Grade K	Grade L	Grade M		Grade N	
1																		
2	£11,448	954.00																£5.93
3	£11,916	993.00																£6.18
4	£12,381	1,031.75																£6.42
5	£12,912	1,076.00																£6.69
6	£13,353	1,112.75																£6.92
7	£13,935	1,161.25	0															£7.22
8	£14,748	1,229.00																£7.64
9	£15,663	1,305.25																£8.12
10	£16,302	1,358.50																£8.45
11	£16,635	1,386.25	309	310														£8.62
12	£16,968	1,414.00																£8.79
13	£17,403	1,450.25																£9.02
14	£17,721	1,476.75																£9.19
15	£18,093	1,507.75		359	360													£9.38
16	£18,519	1,543.25																£9.60
17	£18,963	1,580.25																£9.83
18	£19,347	1,612.25																£10.03
19	£20,061	1,671.75			409	410												£10.40
20	£20,793	1,732.75																£10.78
21	£21,552	1,796.00																£11.17
22	£22,113	1,842.75																£11.46
23	£22,749	1,895.75				459	460 +											£11.79
24	£23,481	1,956.75																£12.17
25	£24,222	2,018.50																£12.55
26	£24,996	2,083.00																£12.96
27	£25,821	2,151.75																£13.38
28	£26,664	2,222.00						175										£13.82
29	£27,699	2,308.25																£14.36
30	£28,611	2,384.25																£14.83
31	£29,511	2,459.25																£15.30
32	£30,375	2,531.25																£15.74
33	£31,263	2,605.25							200									£16.20
34	£32,145	2,678.75																£16.66
35	£32,814	2,734.50																£17.01
36	£33,666	2,805.50																£17.45
37	£34,629	2,885.75								230								£17.95
38	£35,631	2,969.25																£18.47
39	£36,765	3,063.75																£19.06
40	£37,740	3,145.00																£19.56
41	£38,736	3,228.00									264							£20.08
42	£39,705	3,308.75																£20.58
43	£40,689	3,390.75																£21.09
44	£41,688	3,474.00																£21.61
45	£42,615	3,551.25																£22.09
46	£43,650	3,637.50																£22.62
47	£44,628	3,719.00																£23.13
48	£45,621	3,801.75																£23.65
49	£46,575	3,881.25																£24.14
50	£47,013	3,917.75																£24.37
51	£48,096	4,008.00																£24.93
52	£49,173	4,097.75																£25.49
53	£50,256	4,188.00																£26.05
54	£51,339	4,278.25																£26.61
55	£52,959	4,413.25																£27.45
56	£54,579	4,548.25																£28.29
57	£55,656	4,638.00														460		£28.85
58	£56,736	4,728.00																£29.41
59	£57,822	4,818.50																£29.97
60	£58,902	4,908.50																£30.53
61	£60,522	5,043.50															528	£31.37
62	£62,142	5,178.50																£32.21
63	£63,762	5,313.50																£33.05
64	£65,385	5,448.75																£33.89
65	£67,005	5,583.75																£34.73
66	£68,625	5,718.75																£35.57
67	£70,245	5,853.75																£36.41
68	£71,868	5,989.00																£37.25
69	£73,491	6,124.25																£38.09
70	£75,111	6,259.25																£38.93
71	£76,734	6,394.50																£39.77
72	£78,354	6,529.50																£40.61
73	£79,974	6,664.50																£41.45
74	£81,597	6,799.75																£42.29
75	£83,217	6,934.75																£43.13

* Hourly Rate Formula-Annual Salary / 365 x 7 / 37

** Includes 2013-2014 Pay Award of 1.5%

BRENTWOOD BOROUGH COUNCIL
SENIOR OFFICER REMUNERATION PANEL

TERMS OF REFERENCE

The Remuneration Panel (“the Panel”) will be a non-executive body and have no executive or decision making powers, and will make recommendations to the Leader of the Council to agree the remuneration levels and to put forward its own views in relation to the allocation of Performance Related Pay (PRP) to the Managing Director.

The Leader shall consider such recommendations received from the Panel and may reach their own conclusions on any matter put before them. However, if the Leader decides not to follow the recommendations provided by the Panel following consultation with officers advising the Leader, such decisions and reasons shall be recorded and available for inspection.

Membership

The Panel shall consist of 7 members, 3 of whom shall be independent of Brentwood Borough Council (“the Council”) and 4 Members of the Council. The 4 Members of the Council to be made up of 1 Chair of the Council’s Committee/Panel, 2 Opposition Leaders from different Opposition Groups and one other member from the ruling group. (The positions for the representatives from the Opposition Groups will be offered to the majority groups. If this is not accepted then a position will be offered to the next opposition group.)

The independent members shall be from Business, Voluntary and Local Government peers, and shall be selected by the Leader, the Council’s Monitoring Officer, Section 151 Officer and HR Officer. Membership shall be for a fixed period of 3 years.

The Remuneration Panel shall elect a Chair to conduct the business of the Panel annually.

A Quorum of the Panel at any meeting shall be two Independent members and 2 Council members. (The 2 Council members must include one from the ruling group and one from an opposition party).

Meetings

The Panel will meet at least once a year on a date arranged by the Chair of the Panel. Additional meetings will be arranged as required by the Chair of the Panel.

Administrative support relating to the conduct of the meetings will be provided by the Council.

Advice

Independent professional/market advice will be available to the Panel in order to assist the Panel to undertake its duties (both through the use of external consultants and in house capacity). Professional advisers may attend meetings to provide such advice.

The Leader will provide recommendations to the Panel from the outcomes of the annual Managing Director's appraisal following discussions with Chairs and Opposition Leaders.

Remuneration of Independent Panel Members

There is no actual remuneration, although expenses may be claimed by Independent Panel members.

Scope of Duties

The duties of the Panel are:

1. To consider and review the broad reward strategy for the remuneration of the Managing Director, taking into consideration external market factors.
2. To consider the recommendations from the Leader regarding the outcomes from the Managing Director's annual appraisal. (Following discussion with Chairs and Opposition Leaders).
3. To recommend to the Leader annually the remuneration and Performance Related Pay of the Managing Director to ensure that the ranges remain at the required benchmark level.

N.B – The Panel will not be able to make any recommendations that alters the Terms & Conditions of the Job Holder.

Legislation

The Panel will be required to meet the requirements of the Data Protection Act (and any other relevant legislation) in conducting meetings and considering the documents and information made available to them.

Reporting

Formal minutes will be taken of each meeting of the Panel.

Any recommendations agreed by the Panel will be made to the Leader for consideration. Any consultation with the Leader in relation to any issues arising will take place where possible within 21 days of such recommendation.

Communication

Once approved by the Leader (following consultation with Chairs and Opposition Leaders), as required under the Localism Bill, agreed recommendations will be included within a senior pay policy statement published each financial year that sets out the authority's policies relating to the remuneration of its Chief Officers.

All of the discussions about pay and remuneration are by their very nature confidential at all times. If details of any personal data are discussed outside of the meeting those persons who are in breach are personally liable for any breach and the Council cannot be held liable for any action in damages which are claimed against it as a result.

Review

The Panels Terms of Reference will be reviewed on an annual basis by the Leader and Opposition Group Leaders before the yearly duties of the panel.

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

Powers and Duties of the Council Matters reserved to meetings of Council

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 Strategy and Policy Board and its Committees. It also agrees the membership of the Board and Committees/Sub Committees.

The Council is responsible for:

- (a) adopting and changing the Constitution;
- (b) approving or adopting the Council policies and strategies which form the policy framework;
- (c) agreeing and approving the budget;
- (d) 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;
- (e) appointing representatives to outside bodies unless the appointment has been delegated by the Council;
- (f) adopting a members' allowances scheme under Part 6;
- (g) changing the name of the area, conferring the title of honorary alderman or freedom of the borough;

(h) confirming the appointment of the Head of Paid Service; Monitoring Officer; and Section 151 Officer;

(i) making, amending, revoking, re-enacting or adopting bylaws and promoting or opposing the making of local legislation or personal Bills;

(j) all other matters which by law must be reserved to Council;

(k) to designate the leader of the largest political group as the Leader of the Council;

(l) adoption of the Code of Conduct for Members;

(m) approving the making of a virement or payment from the Council's reserves for values exceeding £200,000; and

(n) determination of other matters appropriately referred to Council.