1 March 2017

Ordinary Council

General Fund and Housing Revenue Account (HRA) Budget 2017/18

Report of: *John Chance, Finance Director*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

1.1 The Medium Term Financial Plan (MTFP) considered by Policy, Finance and Resources Committee on 29 November 2016 gave Members an update on the various significant changes that would impact on the Council's financial position. Particular issues highlighted, relevant to the General Fund & HRA included the phasing out of the Revenue Support Grant (RSG), changes to the New Homes Bonus & the Business Rates Retention schemes.

The fundamental principles of the Council's MTFP are to:

(i) Maintain a sustainable financial position against a background of unprecedented financial uncertainty and reduced government funding, including the delivery of efficiency targets.

(ii) Support the vision of our Borough through appropriate identification of resources required to deliver the key priorities outlined in the 'Vision for Brentwood'.

(iii) Maximise opportunities and mitigate risks associated with the fundamental change to the way in which local government is financed.

1.2 This report considers:

(i) The General Fund budget proposals for 2017/18 to 2019/20.

(ii) The Housing Revenue Account (HRA) budget proposals for 2017/18 onwards.

(iii) The Capital Programme 2017/18 to 2019/20.

(iv) The Treasury Management & Investment Strategy for 2017/18.

2. Recommendations

General Fund:

2.1 To approve the General Fund - Revised MTFP for 2017/18 as shown in Table 7 at paragraph 8.2 which includes the proposed savings target envelope as shown in Table 8 at paragraph 8.7 of this report.

Housing Revenue Account (HRA)

2.2 To approve the HRA Business Plan for 2017/18 and beyond as shown in Appendix E of this report.

2.3 To approve a 1% decrease in rents for 2017/18 and for the following 2 years.

2.4 To recommend to apply the formula rent to all new tenancies from April 2017/18.

Capital programme

2.5 To approve the proposed Capital Programme and Funding totalling £33.9 million for 2017/18 to 2019/20 as set out in Tables 15 and 16 of this report.

2.6 To approve the Treasury Management and Investment Strategy as set out in Section 12 of this report.

2.7 To note the Section 151 Officer’s Assurance Statement as set out in Section 13 of this report.

3. Introduction and Background

3.1 The financial pressures that face Local Government are well known. Despite these pressures however, the Council remains committed to both the maintenance of service delivery and providing community outcomes that enhance the quality of life for the residents of Brentwood.

3.2 The challenges that Brentwood face, from a finance perspective, are clearly shown in "**Table 1 – Financial Position Statement"**
This table indicates the following results:-

- Table 1A – Summary of funding position reported 4 March 2015
- Table 1B – Summary of funding position reported 2 March 2016.
- Table 1C – Summary of funding position in this report.

3.3 The transformation that the Council is undergoing is both radical and moving at pace. It is focused on keeping a clear eye on our residents needs and delivering a legacy for the future. Projects such as the Town Hall Hub and refurbishment, the Town Centre (incorporating William Hunter Way), the delivery of the Local Develop Plan (LDP) are being delivered whilst the Council is changing its organisational structure, working with new partners and constantly looking at ways to improve its offering to residents.

3.4 A comparison of the working balances In Table 1 for the three years (2016/17: 2017/2108: 2018/2019) show the positive result of the Council's ability to turn around what is an unprecedented period in the financial life of Brentwood Borough Council.

3.5 As an example, at this stage last year (March 2016) the Council was looking at a negative working balance in 2018/19 of (£3.7M). Factors outside of the Council's control, as an example the reduction in New Homes Bonus , which were not known at the time of setting the budget last year, would have boosted this by a further £1.1M to a negative working balance of (£4.8M). Work undertaken since March 2016 will deliver an improved budget position of £5.9M, by delivering a working balance of £1.0m.

3.6 The Council will continue to strive to introduce projects (many of which have commenced) to improve further the financial position of the Council. The turnaround indicated in paragraph 3.5 above is a clear indication of the Council's ability to adapt to changes in circumstances and make adjustments which are necessary to ensure a more robust financial position as it moves forwards to self financing.

Table 1 – Financial Position Statement

Table 1A – Summary of funding position reported 4 March 2015.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Funding Gap	697	878	1,164	-	-
Working Balance c/fwd	3,447	1,919	755	-	-

Table 1B – Summary of funding position reported 2 March 2016.

	2015/16 Estimated Outturn £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Funding Gap	200	1,291	2,323	3,391	-
Working Balance c/fwd	3,961	2,370	(303)	(3,694)	-

Table 1C – Summary of funding position in this report.

	2015/16 Outturn £'000	2016/17 Estimated Outturn £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Funding Gap	194	285	283	1,537	2,044
Working Balance c/fwd	3,965	3,380	2,629	1,021	(1,023)

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4. Vision for Brentwood 2016/2019

4.1 Vision for Brentwood is the main strategic planning document, providing a framework for the delivery of services for 2016/17 to 2018/19. It is a clear statement of the Councils' priorities for the next three years.

- **Environment and Housing Management** – We will find new ways of working with partners and embrace the support of communities, to enhance the cleanliness of our environment and maintain the attractiveness of our Borough. We will work to ensure our housing stock is managed so that it delivers comfortable and safe homes for our tenants that are efficient and sustainable.

- **Community and Health** – Brentwood is fortunate to benefit from a range of vibrant groups and organisations that enhance and support the local community. The Council will work with local businesses, community groups and the voluntary sector to ensure the future wellbeing of our Borough.

- **Economic Development** – Our superior locational advantage and entrepreneurial spirit means that Brentwood is fortunate to have a strong economic foundation. In partnership with key local and regional business organisations, we can harness that force to promote the Borough, encourage a mixed economy and support sustainable development.

- **Planning and Licensing** – A new Local Development Plan will shape the way our Borough will change over the next fifteen years. We will continue to work in partnership with others and work hard to get the best outcome and achieve a good balance for residents and businesses in a way that celebrates Brentwood's unique history and quality of life; both within the Borough and influencing the outcome of regional developments that will affect Brentwood residents. Our licensing policies will regulate businesses to ensure public safety and minimise environmental nuisance caused by their activities.

- **Transformation –** Between 2016 and 2019 the way the Council looks and works will be transformed. We will continue the drive to make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers' money is even more wisely spent. We will explore new income generating ideas and opportunities. 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.

5. Budget 2017/18 and Medium Term Financial Plan to 2019/20

5.1 At its meeting on 29 November 2016, the Policy, Finance and Resources Committee received information on initial funding and proposals for the MTFP. In accordance with the Budget and Policy Framework, these initial proposals were presented to Audit & Scrutiny Committee on 23 January 2017 for their consideration.

5.2 Attached at Appendix A is a draft copy of the minutes from Audit & Scrutiny Committee outlining their feedback on the initial proposals. The feedback has been considered in compiling the MTFP.

5.3 The information set out in this enclosure represents the financial expression of the Council's Vision for Brentwood Plan over the next three years based on a back drop of significant financial pressures.

5.4 The 2016/17 half yearly budget monitoring has been used for the forecast outturn position and this has been reflected in the reserves position as at 31 March 2017 set out in this report. Any variation from this at the year end will be reported to Policy, Finance and Resources Committee in June 2017 with recommendations from the Section 151 Officer regarding any surplus or deficit balances.

Demographic Changes

5.5 Between 2004 and 2014, the population across Brentwood increased by 8.2%. This compares to an average increase of 7.8% across the whole of England.

5.6 According to the Office for National Statistics, the projection for 2014 to 2024 is that Brentwood will grow by a further 8.1% to give a projected population of 81,724 by 2024.

5.7 According to the Office for National Statistics, the unemployment rate in the UK fell to 4.8% over the three months to November 2016. This compares to an unemployment rate across Brentwood of 3.2%.

5.8 An analysis of the number of Housing Benefit (HB) and Local Council Tax Support (LCTS) claimant numbers for Brentwood is shown in Table 2.

Table 2 – Number of Claimants for Brentwood for HB & LCTS

	March 2014	March 2015	March 2016 Estimate	March 2017 Estimate
Housing Benefit	3,184	3,024	2,916	2,933
Local Council Tax Support	3,987	3,751	3,585	3,463

2017/18 Provisional Local Government Finance Announcement

5.9 The Provisional Local Government Finance Settlement for 2017/18 was announced on 16 December 2017. This covered the consultation on local government finance settlement for 2017/18 with indicative figures provided until 2019/20. The settlement was broadly in line with the indicative figures for 2017/18 announced in the four year settlement last year. Key issues from the announcement are outlined below:

- The 2017/18 New Homes Bonus allocations and details of the consultation on the future of the scheme have been announced. The number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. The scheme will now also only reward growth in homes above 0.4% per annum.

- The changes to the New Homes Bonus Scheme have allowed the government to remove £241m from the scheme's previously announced funding for 2017/18 out of a total allocation nationally of £1.2 bn. This funding has been diverted to the new Adult Social Care Support Grant. This funding is to be distributed based on the adult social care relative needs formula. As a borough council, with no responsibility for social care services, we will not receive this grant.

- Within the business rates retention system the NNDR baseline and top up/tariff amounts have been amended to reflect Revaluation 2017. The adjusted amounts are intended to make changes in Rateable Value revenue neutral for individual authorities; with changes to authorities' NNDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise business rates locally, i.e. with effect from 2018/19 the Council will have a negative RSG allocation. The Government will claw back this negative allocation from us by increasing the tariff that the Council pays on its retained Business Rates.

5.10 The funding announced as part of the Finance Settlement for 2017/18 is outlined in Table 3.

Table 3 – Government Funding

	2017/18 Indicative £'000	**2018/19 Indicative £'000**	**2019/20 Indicative £'000**
Revenue Support Grant	233	Nil	Nil
Tariff/Top-Up adjustment	Nil	(52)	(370)
TOTAL	**233**	**(52)**	**(370)**

5.11 The Council is part of the Essex Wide Pool for Business Rates in 2017/18. The pool consists of eleven Essex local authorities including Essex County Council, Essex Fire Authority and eight Borough and District Councils. By pooling, any levy payments that would have been made to Central Government in relation to business rate growth can be saved and distributed to the members of the Pool. No additional income has been budgeted for in 2017/18 as overall the pool is not generating a surplus.

Business Rates Retention

5.12 The Business Rates retention figure represents the Council's share (40%) of the total amount collected from local businesses, less a tariff payment to central government. The estimated amount for 2017/18 is outlined in Table 4. It is assumed that we will retain a similar amount in future years. These amounts include a provision for losses resulting from any successful appeals by rate payers against the rateable value of their properties. Appeals are dealt with by the Valuation Office Agency and their success or failure is beyond the Council's control.

Table 4 – Estimated Business Rates Retention

	2016/17 Indicative £'000	2017/18 Indicative £'000	2018/19 Indicative £'000	2019/20 Indicative £'000
Business Rates Retention	1,578	1,798	1,798	1,798

5.13 The increase in Business Rates Retention from 2016/17 to 2017/18 is mainly due to a reduction in the tariff paid by the Council to central government following the recent rates revaluation in 2016. This is partly offset by the loss of business rates yield resulting from an overall downward reduction in the rateable values and from changes in the rules for small business rates relief. The net difference between the tariff reduction and the loss of yield estimated to amount to an additional £0.220m. Any future increases are contingent of favourable economic conditions so a prudent view is being taken at this point.

New Homes Bonus Grant

5.14 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 was intended to be payable for 6 years.

5.15 However, the changes announced in the 2017/18 Provisional Local Government settlement which are that the number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. The scheme will now also only reward growth in homes above 0.4% per annum.

5.16 For 2017/18, the Council is due to receive £1.154m in New Homes Bonus Grant. This is some £480k lower than originally anticipated due to the changes outlined in paragraph 5.9. The profile of the Grant payments is outlined in Table 5:

Table 5 – New Homes Bonus Grant

	11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000	15/16 £'000	16/17 £'000	17/18 Est £'000	18/19 Est £'000	19/20 Est
Yr 1	255	255	255	255	255	255			
Yr 2		214	214	214	214	214			
Yr 3			330	330	330	330	330		
Yr 4				416	416	416	416		
Yr 5					241	241	241	241	
Yr 6						167	167	167	167
Yr 7							*1	1	1
Yr 8								1	1
									1
TOTAL	**255**	**469**	**799**	**1,215**	**1,456**	**1,623**	**1,155**	**410***	**170**

* This figure has been reduced as a result of the top slicing decision announced in December 2016, to fund social care authorities

5.17 The New Homes Bonus Grant remains a flexible, non ringfenced fund for Local Authorities to spend as they deem appropriate. This could include:

- Re-investing in housing or infrastructure.
- Support for local services or facilities.
- General financial support to hold down Council Tax levels.

5.18 Since its introduction in 2011/12, the Council has used the New Homes Bonus Grant to support the General Fund Budget. For 2017/18, the Council will continue to treat the grant funding as general financial support.

5.19 Due to the changes in the New Homes Bonus allocations the impact of the Provisional Local Government Finance settlement is a reduction in funding for the Council of £480k in addition to the grant reduction.

6. Council Tax Base & Collection Rate

6.1 Under section 33 of the Local Government Finance Act 1992 (as amended) and supporting Regulations, the Council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.

6.2 The tax base is used in the calculation of the Council Tax Requirement, to produce the standard amount of Council Tax for a band D property, in relation to both the Borough and the major precepting authorities.

6.3 As in previous years, 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.

6.4 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 2017/18 is 32,084.1 (agreed by the Section 151 Officer on 2 December 2016 under delegated authority). This compares to a figure of 31,790 for 2016/17. An assumed growth of 0.5% has been included within the MTFP for future years.

6.5 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 assumed as 99% and has been incorporated within the Medium Term Financial Plan calculations.

Note - Please see Section 9 for Council Tax increase implications.

7. Collection Fund

Council Tax

7.1 Following a calculation of the income and expenditure in the Collection Fund relating to Council Tax for this year, it is estimated that there will be an accumulated surplus of £1.035 million to be distributed in respect of Council Tax by 31 March 2017. Table 6 shows how this will be distributed.

Table 6 – Estimated Collection Fund Surplus Distribution

Authority	Amount £
Brentwood Borough Council	124,959
Essex County Council	761,876
Police and Crime Commissioner	102,538
Essex Fire Authority	45,627

7.2 The Council must take the amount of £124,959 into account when it sets its element of the Council Tax for 2017/18.

7.3 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 2017/18 to reduce our Council Tax Requirement for that year.

Retained Business Rates

7.4 It is estimated that there will be no surplus/deficit. This is the figure that has been estimated in the NNDR1 submission to the government at the end of January 2017.

8 General Fund Revenue Budget

Position Statement

8.1 Overall Revenue Forecast Position to 2019/20 is covered herein

8.2 The summary revenue budget and forecast to 2019/20 is outlined in Table 7.

Table 7 – Summary Revenue Budget & Forecast to 2019/20

	2016/17 Estimated Outturn £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Total General Fund Net Expenditure	10,645	10,517	10,694	10,648
Total Funding	(10,360)	(9,254)	(8,127)	(7,574)
Funding Gap	285	1,263	2,567	3,074
Less: Net Savings Targets (See Table 8 and 8.1)	N/A	(980)	(1,030)	(1,030)
Net Funding Gap	285	283	1,537	2,044
Working Balance b/fwd	3,965	3,380	2,629	1,021
Funding Gap	285	283	1,537	2,044
Earmarked for WHW	300	350	Nil	Nil
Earmarked for Town Hall Project	Nil	118	71	Nil
Working Balance c/fwd	3,380	2,629	1,021	(1,023)

8.3 The projected outturn for 2016/17, after projected savings targets, of £285k (or 2.68% of net expenditure) which is the same as reported to this Committee on 29 November 2016.

Addressing the Funding Gap

8.4 The MTFP provides the framework with which the Council will achieve its aspirations.

8.5 The Council will continue to explore opportunities to identify and secure additional income with which to support services, it is clear that there is also the opportunity to balance its budget through the strict management of expenditure levels and securing efficiencies.

8.6 Services need to continue to drive through efficiencies and continually review their working practices and operations to try and make them as efficient as possible.

8.7 Savings Targets are proposed to bridge some of the funding gap as outlined below in Table 8 and detailed in Table 8.1.

Table 8 – Proposed Savings Targets

Proposed Savings Targets	2017/18 £'000	2018/19 £'000	2019/20 £'000
Additional Income Generation Target	516	501	501
Efficiencies Target	415	415	415
Re-prioritisation of Services Target	49	114	114
Total Savings Target	**980**	**1,030**	**1,030**

8.8 An enormous amount of effort has gone into securing this position for the Council. This is specifically emphasised when comparing the forecast working balance in the Table 7, i.e. £1,021k for 2018/19, to the original position a year ago, i.e. a deficit of £3,694k in Table 1B. This is a movement of £4.7m, achieved by a combination of efficiencies, income generation and service re-prioritisation action. This improvement is even greater when you take into account the impact of the reduction on the New Homes Bonus of £1.1M over two years, which is outside of the Council's control.

8.9 Other key areas that are being developed are:

- Depot Strategy. Aside from the saving of £80k which will be delivered by the new waste transfer station, there's a wider strategy being developed to review and develop the depot function to generate greater efficiencies and maximise its use.

- Town Centre Strategy. Plans are underway to redevelop and stimulate the local economy in the town centre.

- Town Hall Strategy. The gains from the town hall strategy, which was approved by Council in October, are being worked up and included within the MTFP.

8.10 The Council has produced a Leisure and Recreation Strategy (including a review of Open Spaces). The scope of this work included:

- A viable and deliverable model of sports facility stock (type/mix) that meets existing and anticipated future demand.

- A comprehensive assessment of the supply of and demand for outdoor playing pitches in Brentwood Borough.

- A clear understanding of the overall surpluses and deficiencies across the Borough and any specific geographical and/or individual facility needs.

- Establishment of key principles to help inform where future resources should be focused.

- Production of a strategy which is compliant with Sports England guidance.

8.11 Whilst it is not possible at this stage to quantify any savings/additional income, these will need to be a key outcome from the development of the Strategy. This is now being developed through a cross-party working group, and any saving arising in future years will be identified and reported through the appropriate Committees.

8.12 Officers will continue to work with the administration to identify other opportunities during the year to bridge the funding gap.

Working Balances and Reserves

8.13 Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their Council Tax Requirement.

8.14 The Section 151 Officer is responsible for providing advice so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account his advice may require a report to be made to the Council under Section 114 of the Local Government Finance Act 1988.

8.15 Section 25 of the Local Government Act 2003 includes a duty on the Section 151 Officer to report, at the time the Council Tax is set, on the robustness of the budget calculations as well as the adequacy of the Council's reserves and other matters (see Section 13 'Section 151 Officer's Assurance').

8.16 The Act also provides an enabling power for the Secretary of State to specify a statutory minimum level of reserves (Section 26 of the 2003 Act). The level of reserves is also a factor the External Auditor will consider in appraising the Council's financial standing. In providing advice to the Council on the level of reserves, the Section 151 Officer has also had regard to professional guidance provided by CIPFA.

8.17 These safeguards are further reinforced through detailed scrutiny by our External Auditors, which includes a methodology to assess the financial performance and standing of the authority.

8.18 When reviewing medium term financial plans and preparing annual budgets, Members should consider the establishment and maintenance of reserves. These may be held for three main purposes:

(i) As a working balance to help cushion the impact of unexpected budgetary pressures.

(ii) As a contingency to cushion the impact of significant unexpected events or emergencies – for example, the Contingency Reserve can be used only for specific purposes approved by full Council.

(iii) As a means of building up funds to meet known or predicted requirements and again to prevent significant fluctuations in net budget cost between years (earmarked reserves).

8.19 General Fund reserves consist of a number of earmarked reserves, together with an unallocated general reserve.

8.20 All reserves and balances form part of the General Fund but the Housing Revenue Account balance is specifically 'ring fenced' for use in connection with that account.

8.21 In addition to the cash-backed reserves described above, local authorities maintain a number of other reserves in the Balance Sheet. Some are required for statutory reasons and others reserves are required to comply with proper accounting practice. In either case these balances are not available for investment.

8.22 As part of the budget approved in March 2016, a minimum General Fund Working Balance of £2.2m was agreed. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2017/18. Revised calculations show that the assessed level should remain at £2.2million.

8.23 Although this report on adequacy of reserves is specific to 2017/18, the Council should bear in mind that adequacy should also be judged against longer-term plans.

8.24 The Council is currently predicting a significant funding gap every year with the General Fund Reserves depleted during 2019/20. Whilst it is not permissible or feasible for the Council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer term solution. Until the budgets for each year are balanced it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level.

8.25 In addition to the General Fund Working Balance, the Council keeps a number of Earmarked Reserves on the Balance Sheet. These Reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities. The balance of these Reserves as at 1 April 2016 was around £2.6 million. A list of the Earmarked Reserves is attached as Appendix B.

Fees and Charges 2017/18

8.26 Proposed Fees and Charges have been taken to the appropriate Council Committee during the financial year 2016/17. The agreed fees and charges have been collated together for information to form Brentwood Borough Councils Fees and Charges Schedule attached as Appendix C.

Contract Register

8.27 The Council has a statutory obligation to publish contracts. Government guidance suggests that over £5,000 is a reasonable value. A Contract register is maintained to enable all officers to be involved in procurement to check if there is already a contract for their requirement. This also supports supplier rationalisation and obtaining best value.

8.28 The Contract Register can be accessed from the Councils intranet by all officers and Councillors.

9. Council Tax Referendum and Council Tax

9.1 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.

9.2 A Council Tax referendum principle of 2% or £5 (which ever is the higher limit) will apply for 2017/18. This will apply to the lowest 10 Police and Crime Commissioners and all shire districts.

9.3 The Government has announced that they will not be introducing referendum principles for parish and town councils, a proposal which they consulted on as part of the summer technical consultation on the 2017/18 settlement. They will keep the level of precepts set by town and parish councils under review and may introduce referendum principles in the future.

9.4 Members are reminded that the Provisional Local Government Settlement announced in December 2016 assumes that Councils will increase Council Tax levels. By increasing the Council Tax by the £5 or 2 % and applying the same increase in future years the Council would be able to increase income as well as its budget base by:

Table 9 – Council Tax Increase options

Year	£5 increase in Council Tax £'000	2% increase in Council Tax £'000
2017/18	160	111
2018/19	322	226
2019/20	486	343

10. Housing Revenue Account (HRA) Budget 2017/18

10.1 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.

10.2 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.

10.3 From April 2012, a new system in Self Financing came into force for local authority social housing.

10.4 Self Financing represents a significant change in the way the Council's housing stock is funded. In principle, it gives more local accountability and responsibility for the operation of the Council's housing stock. The key elements of Self Financing are:

- The Government calculated a level of debt based on a 30 year assessment on expenditure, which was transferred to the authority to compensate the Government for the end of the subsidy scheme. For Brentwood, this was assessed at approximately £64.4million. We have borrowed to service this debt.
- Councils have full responsibility for the maintenance and development of the housing stock and also the servicing of the debt.
- A sum for depreciation of the stock is required to be included in the accounts.

10.5 The method of setting rents has changed in the Government's summer budget 2015. As part of the new Welfare Reform and Work Bill 2015/16 it was announced that rents in the social housing sector will be reduced by 1% a year for the next four years.

Service Charges

10.6 **Tenant Service Charges -** Historically, the Council has increased tenant service charges through a 'rolling reconciliation'. The 'rolling reconciliation', compares the previous year's actual to the budgeted figure. The under/over recovery is then passed onto the tenant in the following year. This ensures service charges are cost recovered. Tenant service charges are currently under review. Where the service charge had decreased this will be passed onto the tenant.

10.7 **Leaseholder Service Charges** - These are levied by the Council, to recover the costs the Council incurs in providing services to a dwelling. The way in which the service charge is organised is set out in the leaseholder's lease or tenancy agreement and therefore they will be calculated accordingly.

Fees and Charges – Recharging Policy

10.8 On the 23 September 2015 the Environment and Housing Committee approved the new recharge policy. Previously recharges for Housing services have only been recovered on an ad hoc basis. This has led to the council subsidising some of the costs, which is ultimately passed on to the Council.

10.9 In addition to reviewing discretionary services, Officers have also reviewed the services the Council pays for, which are deemed rechargeable, but the Council is currently subsidising. It is hoped that the introduction of the re-charging policy, for these services will encourage tenants to be more aware and also more responsible for their property and actions within their property.

10.10 Prices have been calculated with the following price mechanism:

- 2017/18 – Cost price less 25%
- 2018/19 – Cost price less 20%
- 2019/20 – Cost price less 15%

Each year the percentage deducted will decrease by 5% until the full cost price is recovered.

10.11 The schedule of the fees and charges were agreed at the Environment and Housing Management Committee of 7 December 2016 and are attached as Appendix C.

Projected Outturn 2016/17

10.12 The estimated outturn for the HRA Fund is a potential surplus £293k as at 31 March 2017 which is in line with the original budget for 2016/17 which projected a surplus of £293k. The anticipated surplus will deliver a working balance at the end of the financial year of £1.656 million and an earmarked reserve balance of £3.034 million.

10.13 The HRA budget for 2017/18 indicates a surplus of £450k. The key variations from the budget are:

- The budget for Repairs and Maintenance has increased by £250k. As it was agreed that for 2015/16 non priority planned maintenance works were stopped for a year while a stock condition survey is carried out to inform the new capital programme from 2017/18 onwards. Therefore the 250k has been reinstated into the based budget for 2017/18 onwards.

- Employee Costs for General Management have decreased by 69k based on the new housing structure.

- Central Recharges to the HRA have increased by £73k.

- Dwelling Rent Income decreases by £289k taking into consideration the government rent decrease proposed within this report as well as the reduction in income due to the sales of council dwellings.

- Non Dwelling income has decreased by £167k to account for the transfer of the shops from the HRA to the General Fund

- Tenant and Leaseholder Income have increased by 28k to reflect the income from Leaseholders that was previously not charged for.

HRA Working Balance

10.14 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.

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

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

10.17 The average working balance for the period 2017/18 to 2019/20 is expected to be £2.3 million. This is deemed for the Council as an acceptable, assured level of balances.

Earmarked Reserves

10.18 In addition to the HRA Working Balance, the Council keeps three HRA Earmarked Reserves on the Balance Sheet. These Reserves are as follows:

- 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 2017 is £2.631 million. The MTFP assumes voluntary annual contributions of between £100k to £500k per annum for the period 2016/17-2019/20 as long as it is affordable.
- Repairs and Maintenance Reserve – this reserve receives a contribution regarding any under spends from Repairs and Maintenance in Year, to support future work outlined from the stock condition survey. The anticipated Balance of this reserve as at 31 March 2017 is £400k.
- Resident Involvement Training Reserve – this reserve currently has a balance of £3k and is to be used to train residents, in housing matters.

Rent Levels

10.19 For the last five years, the Council has held a consultation process both with our tenants in general, and with Tenant Talkback in particular, so that the views of our tenants are taken into account in this important decision.

10.20 As part of the government summer budget, rent policy has changed and all social housing rents for General Need Housing are to decrease by 1% from 2016/17 until 2019/20 inclusive.

10.21 Under the new rent policy, the main changes are:

- Current rents to reduce by 1% and for the next four years from 2016/17.
- Formula Rents can still be applied to all new tenancies, however these must reduce by 1% for 2016/17 and the next three years.

10.22 The rent year for 2017/18 will commence on 3 April 2017 and finish on 2 April 2018. It will be a 52 week rent year.

10.23 The Rent Model for 2017/18 applies the Governments assumptions as part of the new Welfare Reform and Work Bill 2015/16.

Self Financing Settlement

10.24 On 28 March 2012 the Council borrowed £64.166 million from PWLB (Public Works Loan Board) in order for the HRA to become Self Financing as the subsidy system was being demolished. The Council profiled this borrowing over 6 loans ranging from lengths of 5 years to 30 years.

10.25 Table 10 shows the profiles of the loans that the Council holds regarding the Self Financing Debt

Table 10 - Profile of HRA Loans

Loan Amount	Number of Years Held	Date Repayable	Interest %
5,000,000	5	28/03/2017	1.24
5,000,000	10	28/03/2022	2.4
10,000,000	15	28/03/2027	3.01
15,000,000	20	28/03/2032	3.3
15,000,000	25	28/03/2037	3.44
14,166,000	30	28/03/2042	3.5

10.26 The HRA Business Plan from 2012/13 had been setting aside monies from surplus cash, to repay the loans. As at 31 March 2015 the amount set aside is £5 million. This will pay for the loan due to repaid on 28 March 2017

10.27 On average, the HRA was setting aside £1.5 million a year to repay back the above loans. With the decrease in rental income as well as the HRA contributing its surplus money towards funding the capital programme and affordable housing development scheme, the HRA can no longer set aside £1.5 million for voluntary loan repayment. The HRA therefore, will continue to set aside some money as long as it is affordable to the HRA. The other 5 loans have been re-profiled and this means the council with have to re-borrow and will not be debt free until 2046/47

10.28 The amounts the Council potentially may need to re-borrow are shown Table 11.

Table 11 - Profile of possible re-borrowing in future years

Loan Amount	Number of Years Held	Date Repayable	Interest %
1,800,000	10	28/03/2030	2.47
2,500,000	10	28/03/2031	2.47
10,000,000	10	28/03/2037	2.47
15,000,000	15	20/03/2047	2.82
11,000000	10	20/03/2047	2.47

10.29 The need for additional borrowing will be reviewed on an annual basis and reflected in the reviewed Business Plan for the HRA.

Housing Rents

10.30 The average proposed decrease for Housing Properties in 2017/18 is 1% and the average rent decrease is £0.92 per resident.

10.31 If the rents are charged at the model's current calculation then the gross income will be £11.906m (2016/17 £12.259). The allowance for properties empty ("Voids") between letting will be 0.5%, therefore the expected Void budget will be £59k (2016/17 £123k).

10.32 Based on the new rent policy, the HRA will lose £289k of rental income in 2017/18.

10.33 The Analysis of Rent increases/decreases have been outlined in Appendix D.

Tenant Service Charge Policy

10.34 The proposed rent decreases 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.

10.35 A review on service charges to be carried out during 2017/18 in order to inform the charging policy going forward. Members will be kept informed of developments.

10.36 Government guidance suggests service charges should not be increased by more than CPI + 1%. This guidance will be included in the service charge review.

HRA Business Plan

10.37 The HRA Business Plan has been updated with the recommendations proposed in this report. A sensitivity analysis has been carried out to ensure the robustness of the 30 year plan. A summary is attached in Appendix E.

10.38 The following assumptions have been taken into account when considering the revised Business Plan:

- The financial viability of the HRA.
- Delivering a repairs capital programme of £3m for 2017/18 onwards.
- Delivering an Affordable Housing Development Programme in addition to the Decent Home Capital programme. This averages at £3.614m for 2017/18 to 2019/20 and £2 million from 2020/21 onwards. This programme is also dependent on the number of right to buy sales made.
- Re-profiling the self financing debt so that the council can repay it at a later date when the HRA can afford to
- No allowance has been made for growth bids.
- Affordability for tenants.
- The 1% decrease has been applied to rental income for the next two years and then rental income is assumed to increase from 2020/21.

11. Capital Programme

11.1 This section considers the Capital Programme and supporting Strategy for the period 2017/18 to 2019/20.

11.2 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.

11.3 The Capital Programme sets out the medium term investment proposals, together with the identified sources of funding. The Capital Programme supports the Capital Strategy which is aligned to the priorities of the Council.

Funding the Capital Programme

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

- **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.

- **Leasing** – Local Authorities may fund capital expenditure by way of a finance lease, where all the risks and rewards of ownership are transferred to the lessee. 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.

- **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.

- **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.

Housing Revenue Account

11.5 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.

11.6 On 2 April 2012, the pooling arrangement changed. Ministers confirmed delivering the new homes would be through Local Authorities retaining receipts to spend in their area.

11.7 Brentwood entered into an agreement with the Secretary of State for Communities and Local Government to retain the additional RTB receipts on 26th June 2012.

11.8 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.

11.9 A summary of the Retained Receipts for 2016/17 is outlined in Table 12.

Table 12 – Retained Receipts for 2016/17

2016/17	April to Jun	July to Sep	Oct to Dec	Jan to March	Total
Number of RTBs	7	5	3	6	**21**
Total Value (£'000)	858	971	653	818	**3,300**
Average Value (£'000)	123	194	163	136	
Value of RTB Retained (£'000)	557	676	411	548	**2,192**
Expenditure required (£'000)	1,856	2,254	1,371	1,827	**7,308**
Date to be spent by	**30/06/19**	**30/09/19**	**31/12/19**	**31/03/20**	

11.10 The last quarter in 2016/17 is an estimated figure which is based on three sales completed and that is likely to be completed before the end of the financial year. The current estimated balance of retained receipts as at 31 March 2017 is £2,714,397.

11.11 A forecast of Retained Receipts is outlined in Table 13.

Table 13 – Retained Receipts Forecast

	2017/18	2018/19	2019/20	2020/21
Sales	6	6	6	6
Projected Income (£'000)	950	950	950	950
Projected Retained (£'000)	600	600	600	600
Expenditure required (£'000)	2,000	2,000	2,000	2,000

11.12 It is assumed that sales will begin to flat-line from 2017/18; therefore, an estimate of 6 RTB sales per year has been incorporated. However, the amount of RTB's the Council receives is dependent on the independent market and can change year on year.

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

Capital Programme – Projected Outturn 2016/17

11.14 Table 14 below shows the projected spend on the Capital Programme for 2016/17:

Table 14 – Capital Programme 2016/17 – Projected Outturn

DESCRIPTION	2016/17 ORIGINAL BUDGET £'000	2016/17 REVISED BUDGET £'000	2016/17 ESTIMATED OUTTURN £'000
Environment & Housing Management	5,835	8,176	4,263
Community & Health	205	422	344
Economic Development	1,781	1,772	185
Transformation	1,200	2,034	1,216
TOTAL EXPENDITURE ON CORPORATE PRIORITIES	**9,021**	**12,404**	**6,008**
Funded by:			
Capital Receipts	4,142	5,468	2,745
Borrowing	-	-	-
Government Grants	120	120	106
Housing Revenue Account Business Plan	2,318	2,318	2,527
Contributions from Revenue	1,795	3,852	390
Section 106	-	-	84
Retained HRA Receipts	646	646	156
TOTAL FUNDING	**9,021**	**12,404**	**6,008**

11.15 The Current Estimate includes slippage of £2.653m from 2015/16 and £0.730m for the Acquisition of 1-2 Seven Arches Road agreed at Committee.

11.16 The 2016/17 Capital Programme is projecting an under spend of £6.396m. These will be reviewed as part of 2016/17 outturn, to established whether the spend will need to be carried forward into the next financial year.

11.17 The key variances for the projected outturn are as follows:

- HRA Decent Homes Scheme (£2.1m) – A revised programme of works is being carried out in 2016/17. A Stock Condition Survey has been carried out in 2016/17 and will be used to deduce the 2018/19 Capital Programme.

- HRA Affordable Housing (£1.6m) – Affordable housing expenditure has been committed in 2016/17 but work is likely to slip into 2017/18.

- Town Hall (£750k) – This project has been revised as per the report taken to committee on 19 October 2016. The Expenditure required will slip into 2017/18 and The Capital Programme has been re-profiled accordingly.

- Improvements and Parking Scheme at Brentwood and Shenfield (£600k) – Project is currently on hold due to the Strategic Car Park Review.

- Upgrade the Multi-Storey Car Park (£850k) – Project is on hold due to the Strategic Car Park Review.

- Disabled Facilities Grant (£144k) – Less number of applications being received.

- Leisure Strategy (£100k) – Expenditure on hold until Strategy complete.

- Car Park Improvements (£80k) – Project is currently on hold due to the Strategic Car Park Review.

- Play Area Refurbishments (£71k) – Expenditure on hold due to Leisure Strategy.

- Asset Management (£62k) – Expenditure likely to slip into 2017-18

- Renaissance Group (£39k) – No planned Expenditure.

11.18 The Capital Programme for 2016/17 assumes no borrowing.

11.19 Table 15 outlines the investment proposals for 2017/18 to 2019/20. The existing schemes do not include projected carry forwards from 2016/17. Any slippage on the Capital Projects will be decided once the final outturn 2016/17 is confirmed and referred back to Committee.

Table 15 – Capital Programme 2017/18 to 2019/20 – Existing & New Proposals

	2017/18 **£'000**	**2018/19** **£'000**	**2019/20** **£'000**
Existing Schemes:			
HRA Decent Homes Schemes	3,000	3,000	3,000
New Homes Build (HRA)	2,055	1,479	7,310
Town Hall Remodelling	1,176	4,703	3,919
Parking Scheme at Brentwood & Shenfield *	1,000	-	-
Vehicle & Plant Replacement Programme	750	175	175
Disabled Facilities Grant	250	250	250
Play Area Refurbishments	100	-	-
ICT Strategy	100	100	-
Car Park Improvements	100	-	-
Leisure Strategy	100	-	-
Asset Improvements	100	100	-
Home Repair Assistance Grant	30	30	30
Cemetery Headstones	20	20	
CCTV System Upgrade	5	5	-
TOTAL EXISTING SCHEMES	**8,786**	**9,862**	**14,684**
New Schemes:			
Warley Playing Fields – Sports Pavilion	172	-	-
Parks Infrastructure Improvements	100	-	-
Cemetery Infrastructure Improvements	100	-	-
ICT - Azure & Skype Implementation	100	-	-
ICT - End User Device Implementation	75	-	25
Noise, Nuisance Recorder System	8	-	-
TOTAL NEW SCHEMES	**555**	**-**	**25**
TOTAL CAPITAL PROGRAMME	**9,341**	**9,862**	**14,709**

* There is likely to be a re-profiling of this capital scheme as plans are currently being developed.

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

11.21 Assuming all of the proposals are approved, the total investment for the three year programme will be £33.9 million and the funding sources are outlined in the Table 16.

Table 16 - Capital Programme 2017/18 to 2019/20 – Funding Sources

SOURCE OF FUNDING	£'000
Capital Receipts	6,773
Grants	750
Revenue Contributions (HRA)	4,786
HRA Business Plan	9,097
Section 106 Grant (HRA)	808
Borrowing	11,698
TOTAL	**33,912**

11.22 The proposals above exclude any property acquisitions/developments where a business case can demonstrate that a capital investment can be converted to a revenue income stream. The Council currently has sufficient headroom to allow for borrowing of this nature, but each case would be the subject of a report and business case.

12. Treasury Management and Investment Strategy

12.1 This report presents the Treasury Management Strategy for 2016/17 including the associated Prudential Indicators and the Minimum Revenue Provision Policy.

Definition of treasury management

12.2 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."

12.3 The Council is required to receive and approve the following documents:-
a) An Annual Treasury Strategy (this document) - this sets out the Council's approach to managing its investments and borrowings over the year ahead
b) A mid year review of treasury activity - this updates Members on Treasury Management performance for the first half of the financial year
c) An annual report on treasury activity - this details the treasury activity and performance for the full year.

12.4 The Council uses Capita Asset Services (CAS) Treasury Solutions as its external treasury management advisor and much of the content of this report closely follows their advice. The Council recognises, however, that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

12.5 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Interest rate forecasts and economic commentary

12.6 CAS's interest rate forecasts are set out in paragraph 12.27 of this report. This shows a flat trend in interest rates over the next few years.

12.7 Paragraphs 12.28 and 12.29 contains an economic commentary, which provides a context for their interest rates forecasts.

Borrowing Strategy

Current borrowing position

12.8 The Council has borrowings of £66.166m, mostly represented by the £64.166m debt taken in March 2012, when the Council left the HRA subsidy system. The first tranche of this debt (£5m) will mature in March 2017, with the remaining debt maturing between then and March 2042. These are shown in Table 17.

Table 17 – Current Borrowing Position

Start date	Repayment date	Interest rate	Amount
			£
HRA Self Financing Loans (March 2012)			
28/03/2012	28/03/2017	1.24%	5,000,000
28/03/2012	28/03/2022	2.40%	5,000,000
28/03/2012	28/03/2027	3.01%	10,000,000
28/03/2012	28/03/2032	3.30%	15,000,000
28/03/2012	28/03/2037	3.44%	15,000,000
28/03/2012	28/03/2042	3.50%	14,166,000
Sub total			**64,166,000**
General Fund Loans			
30/04/1995	30/04 2055	8.88%	800,000
24/04/1995	24/02/2055	8.88%	800,000
08/01/2003	08/01/2028	4.88%	400,000
Sub total			**2,000,000**
Total			**66,166,000**

HRA debt re-scheduling

12.9 When the HRA loans were taken out, it was intended to repay them on the due dates from funds set aside from the HRA. Due to constraints on the HRA's capacity to continue to set aside funds to repay these loans, these debts have been rescheduled and the end date has been put back to 2047. This potentially may require re-borrowing when the existing loans fall due.

12.10 Details of this rescheduling exercise, if required, are set out in paragraphs 10.25 to 10.29 of this report.

New borrowing

12.11 In common with other authorities, the Council undertakes borrowing to fund its capital programme and to fund short term liquidity needs

12.12 The capital programme set out in paragraph 11.19 (Table 15) assumes the following new borrowing requirement, starting from 2017/18:-

- 2017/18 £1.176m
- 2018/19 £4.703m
- 2019/20 £5.819m

12.13 No short term borrowing needs are forecast for 2017/18 as it is anticipated that the Council will have sufficient liquid resources to funds its cash-flow needs.

Policy on borrowing in advance of need

12.14 Any external borrowing by the Council will not be in excess of or in advance of its needs purely to profit from the investment of the additional 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.

Capital and Treasury Prudential Indicators

12.15 There are a number of capital and treasury prudential indicators that the Council is required to approve under the Local Government Act 2003. These are set out in the following paragraphs.

Capital prudential indicators

12.16 Capital Expenditure. This prudential indicator is a summary of the Council's capital expenditure plans.

Table 18 – Capital Expenditure & Financing Summary

	2016/17 Estimated Outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
General Fund	2,935	4,286	5,383	4,224
HRA	3,073	5,055	4,479	10,310
Total capital expenditure	**6,008**	**9,341**	**9,862**	**14,534**
Financed by:				
Capital receipts	(2,771)	(3,476)	(873)	(2,247)
Revenue contributions (HRA)	(520)	(867)	(1,012)	(2,908)
Government grants	(106)	(1,058)	(250)	(250)
S106 agreements (HRA)	(84)	0	0	0
HRA business plan	(2,527)	(2,764)	(3,024)	(3,309)
Borrowing	0	(1,176)	(4,703)	(5,819)
Total Financing	**(6,008)**	**(9,341)**	**(9,862)**	**(14,534)**

12.17 Capital Financing Requirement (CFR). This measures the Council's underlying need to borrow.

Table 19 – Capital Financing Projections

	2016/17 Estimated Outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
General Fund	11,166	12,342	17,025	20,846
HRA	62,041	61,541	61,541	63,441
Total CFR	**73,207**	**73,883**	**78,566**	**84,287**
Increase/(decrease) in CFR	**(1,563)**	**676**	**4,683**	**5,721**
Represented by:-				
New borrowing	0	1,176	4,703	5,819
Finance lease repayment	(13)	0	0	0
Debt repayment provision	(1,550)	(500)	(20)	(98)
	(1,563)	**676**	**4,683**	**5,721**

12.18 Gross External Borrowing and the Capital Financing Requirement. This indicator compares the Council's gross external borrowing against its CFR. It highlights the fact that the Council is currently maintaining a under-borrowed position, i.e. the amount of borrowing required to fund capital expenditure is more than the amount of external borrowing taken out:-

Table 20 – Capital Financing Projections

	2016/17 Estimated Outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
CFR	73,207	73,883	78,566	84,287
Gross external borrowing	61,166	62,342	67,045	72,864
Under borrowing	12,041	11,541	11,521	11,423

The under- borrowing represents the use in previous years of the Council's own cash balances to fund capital expenditure.

Minimum Revenue Provision Policy

12.19 The Council is required to charge an element of the accumulated General Fund capital spend each year (measured through the CFR) through a revenue charge known as the minimum revenue provision (MRP).

12.20 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. The Council is recommended to approve the following MRP policy:

- for capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be to use existing practice, outlined in former DCLG regulations (option 1), which provides for an approximate 4% reduction in the borrowing need each year

- for all unsupported borrowing (including finance leases) from 1 April 2008, MRP will be based on the estimated life of the assets (option 3), which provides for a reduction in the borrowing need over the assets' lives

12.21 There is no requirement on the HRA to make a minimum revenue provision but under HRA reform there is a requirement to charge depreciation on its assets, which will have a revenue effect. The HRA business plan will need to fund this depreciation over the life of the assets.

Affordability Prudential Indicators

12.22 Ratio of Financing Costs to Net Revenue Stream. This indicator identifies the trend in net borrowing and other long-term obligation costs against the Council's net revenue stream.

Table 21 - Ratio of Financing Costs to Net Revenue Stream

	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	0.36%	0.40%	0.90%	5.70%
HRA	14.74%	14.74%	14.72%	15.51%

12.23 Operational Boundary for External Debt. This is the limit beyond which external debt would not normally be expected to rise. From 2017/18 this has been set at the CFR plus an allowance of £2m to allow for any unexpected short term borrowing needs.

Table 22 - Operational boundary for external debt

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement	73,257	73,883	78,566	84,287
Short term borrowing needs	2,000	2,000	2,000	2,000
Capital Financing Requirement	75,257	75,883	80,566	86,287

12.24 Authorised Limit for External Debt. This is the maximum level of borrowing that the Council is permitted to hold. It has been calculated as the operational boundary plus a further allowance of £3m for new long-term liabilities.

Table 23 - Authorised Limit for External Debt

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Operational boundary	75,257	75,883	80,566	86,287
Long term liabilities	3,000	3,000	3,000	3,000
Capital Financing Requirement	78,257	78,883	83,566	89,287

Treasury Prudential Indicators

12.25 These indicators set prudent boundaries for the Council's treasury activities.

12.26 Maturity Structure of Borrowing

The purpose of this indicator is to reduce the Council's exposure to large amounts of debt falling due and requiring repayment or refinancing. This ensures that the Council's repayments are affordable.

Table 24 - Maturity Structure of Borrowing

	Proportion of Borrowing	
	Lower Limit	**Upper Limit**
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 month and 5 years	0%	20%
5 year and within 10 years	0%	20%
10 years and above	0%	100%

Interest rates.

The purpose of this indicator is to avoid exposure to adverse movements in interest rates. All new borrowing in 2017/18 or future years will be at fixed interest rates.

12.27 Table 25 sets out CAS's view on base rates and PWLB borrowing rates.

Table 25 – CAS's Base Rates & PWLB Borrowing Rates

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

12.28 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

12.29 During the two-year period 2017 to 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the Table 25, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Investment Strategy

Investment Guidance

12.30 The Council's investment policy has regard to The Department for Communities and Local Government (DCLG) 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").

Investment Principles

12.31 The primary investment priorities of the Council are:

a) the security of its capital (i.e. protecting the capital sum from loss)
b) liquidity of its investments (i.e. keeping funds readily available for expenditure when needed).

12.32 Provided that proper levels of security and liquidity are achieved, it may then be reasonable to seek the highest investment returns consistent with these priorities.

Investment instruments and limits

12.33 Table 26 summarises the investment instruments that the Council proposes to use during 2017/18, and the respective credit rating, value and durational limits that will apply:-

Table 26 – Proposed Investment Instruments

Investment instrument	Security/minimum credit ratings	Maximum value of investment	Maximum duration of investment
Term deposits or notice accounts or term deposits with UK banks	Short term F1, Long term A or equivalent (see para 11.42)	£5m per bank	364 days
Term deposits with banks part nationalised by the UK Government (currently Royal Bank of Scotland & NatWest)	Minimum credit ratings not required as long as these banks continue to be part nationalised	£5m per bank	364 days
Term Deposits with UK Building Societies	Short term F1, Long term A or equivalent (see para 11.42)	£5m per Building Society	364 days
The Council's Banker (Lloyds Bank Plc) is not meeting the criteria for UK Banks		£5m	Overnight
Debt Management Account Deposit Facility (DMADF)		Unlimited	6 months (DMADF imposed time limit)
Term Deposits with UK Local Authorities		£5m per local authority	364 days
Money Market Funds	AAA (minimum of two ratings)	£5m	N/a (repayable on demand)
Treasury Bills issued by the UK Government	The Debt Management Office is an agency of the UK Government	Unlimited	364 days
Certificates of Deposit issued by UK institutions	Short term F1, Long term A or equivalent (see para 11.42)	£5m per institution	364 days

12.34 All investments will be transacted in UK Sterling, and all investments with banks with be with UK banks only. Where any banks are not performing to the required minimum standard, reviews will be invoked.

Monetary limits

12.35 The monetary limit of £5m per institution represents an increase of £1m on the current £4m limit. The Council follows a rule of thumb of having a maximum of 20% of its investment portfolio with any one institution. The portfolio is expected to peak at around £25m during 2017/18 and this new limit therefore enables the Council to follow this rule of thumb at those times.

Credit ratings

12.36 Banks and some of the larger building societies are given credit rating by the three main credit rating agencies, Fitch, Moodys and Standard & Poor (S&P). Ratings are split between short term and term.

12.37 The Council's proposed minimum acceptable credit ratings for 2017/18 are outlined in Table 27 (where rated):

Table 27 - Minimum Acceptable Credit Ratings

Agency	Short term	Long term
Fitch	F1	A-
Moody	P1	A3
S&P	A1	A-

12.38 The proposed minimum long-term ratings are a marginal downgrading of the current values (A/A2/A), in order to increase the number of potential counterparties for the Council. The proposed ratings would still represent a high credit score and would continue to limit the Council's investments to high quality financial institutions.

Counterparty list

12.39 Table 28 lists the banks and building societies that currently meet the criteria set out on Table 27.

Table 28 Counterparty List

Banks
Abbey National Treasury Services Plc
Bank of Scotland Plc
Close Brothers Ltd
Goldman Sachs International Bank
HSBC Plc
Lloyds Bank Plc (our current bankers)
Santander UK Plc
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation Europe Ltd
UBS Ltd
Part Nationalised Banks
Royal Bank of Scotland Plc
National Westminster Bank Plc
Building Societies
Nationwide Building Society
Leeds Building Society
Coventry Building Society

It should be noted that this list is dynamic and subject to change as credit ratings move up and down.

Specified and not specified investments

12.40 Specified investments are high security, high liquidity investments in sterling with high credit quality and a maturity of no more than 364 days. All of the instruments identified in Table 26 meet the definition of specified instruments.

12.41 Non specified investments are any other type of investments, one of their characteristics being that their duration is over 364 days, which is in excess of the Council's maximum duration limited of 364 days. The Council will therefore not use non specified investments during 2016/17.

Investment Strategy

12.42 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.

12.43 The Bank of England Base Rate is forecast to remain flat at 0.25% until 2019/20. Bank Rate forecasts for the financial years up to 2019/20 are:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

12.44 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.25%

12.45 Table 29 shows the investments held as at 31 January 2017.

Table 29 – Schedule of Investments as at 31 January 2017

Invested With	Date Invested	Date to be Repaid	Investment Amount £'000	Interest Rate
Banks & Building Societies				
Coventry Building Society	12/08/2016	13/02/2017	1,000	0.35%
Coventry Building Society	01/12/2016	10/03/2017	1,000	0.28%
Goldman Sachs	13/04/2016	13/03/2017	2,500	0.89%
Lloyds Bank plc	04/04/2016	04/04/2017	1,000	0.97%
Lloyds Bank plc	04/01/2017	14/07/2017	1,000	0.60%
Nationwide Building Society	11/11/2016	10/03/2017	1,000	0.32%
Nationwide Building Soc	13/04/2016	13/03/2017	1,000	0.91%
Nationwide Building Soc	04/01/2017	04/07/2017	2,000	0.42%
Santander UK plc	03/01/2017	09/06/2017	1,000	0.41%
Santander UK plc -95 day notice acc			3,000	0.65% (Variable)
Sub total			**14,500**	
Local Authorities				
Blackpool Borough Council	09/12/2016	09/02/2017	1,000	0.25%
Dumfries & Galloway Council	13/01/2017	13/04/2017	1,000	0.25%
Highland Council	18/10/2016	18/04/2017	1,000	0.27%
Leeds City Council	04/01/2017	06/04/2017	1,000	0.27%
Leeds City Council	14/10/2016	01/06/2017	1,000	0.27%
Leeds City Council	05/12/2016	05/09/2017	1,000	0.34%
Salford City Council	01/12/2016	16/06/2017	1,000	0.30%
Salford City Council	21/12/2016	20/12/2017	1,000	0.42%
Stockport Council	03/01/2017	01/02/2017	1,000	0.25%
Thurrock Council	09/12/2016	09/03/2017	1,000	0.27%
Thurrock Council	03/10/2016	03/04/2017	1,000	0.26%
Thurrock Council	04/10/2016	04/05/2017	1,000	0.27%
Sub total			**12,000**	
	TOTAL		**26,500**	

13. Section 151 Officer's Assurance

General Fund

13.1 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.

13.2 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.

13.3 Net saving proposals of £980k have been anticipated for 2017/18 meaning that a sum of £283k will be required from the General Fund Working Balances in order to ensure that the Council has a balanced budget position. This is only acceptable because the impact of this does not breach my recommended £2.2 million minimum level in 2017/18 in addition, work is underway to bridge funding gaps to ensure financial robustness of the Council moving forward.

13.4 Work is underway to consult with other Essex authorities about the relative size and methodology of the minimum reserve level. Furthermore, our internal auditors have been asked to undertake a consultative piece of work to advise on our current approach.

13.5 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.

13.6 A list of the Council's Earmarked Reserves is attached at Appendix B. The levels of reserves are considered to be adequate to fund the planned expenditure identified by the Council.

13.7 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 a minimum working balance at £2.2 million during 2017/18. This will continue to be kept under review.

Housing Revenue Account (HRA)

13.8 Section 25 of the Local Government Act 2003 also requires that, when the Council is considering the HRA budget and rent levels, the Council's Section 151 Officer (Finance Director) must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

13.9 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.

13.10 The budget includes planned contributions to the reserves which will provide resources for investment and debt repayment requirements.

14. Council Tax Requirement 2017/18

14.1 The full Council Tax resolution is included as a separate report

15. Reasons for Recommendation

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

16. Implications

Financial Implications
Name & Title: Ramesh Prashar, Financial Services Manager.
Tel & Email 01277 312513 / Ramesh.prashar@brentwood.gov.uk.

16.1 The financial implications are set out in the report.

Legal Implications
Name & Title: Daniel Toohey, Head of Legal Services and Monitoring Officer.
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16.2 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.

16.3 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.

17 Appendices to this report

Appendix A – Draft Minutes of Audit and Scrutiny Committee
Appendix B – Earmarked Reserves
Appendix C – Fees and Charges Schedule
Appendix D – Analysis of Rent Increases/Decreases
Appendix E – HRA Business Plan

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