

29 November 2017

Policy, Projects & Resources Committee

2017/18 Medium Term Financial Plan Mid Year Review.

Report of: *Jacqueline Van Mellaerts – Financial Services Manager*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 The Medium Term Financial Plan (MTFP) sets out the key financial management principles and budget assumptions. It is then used as the framework for the detailed budget setting process to ensure that the Council's resources are managed effectively in order to meet its statutory responsibilities and deliver the priorities of the Council, over the medium term.

2. Recommendations

- 2.1 **Agree the Revised General Fund Position as shown in Table 6.**
- 2.2 **Agree the current Capital Programme position as shown in Table 7.**
- 2.3 **Agree the current HRA position as shown in Table 9.**

3. Introduction & Background

- 3.1 On 1st March 2017 at Ordinary Council, The Medium Term Financial Plan was approved and the budgets for General Fund, HRA and Capital Programme were set for 2017/18 – 2020/21.
- 3.2 On the 20th June 2017, Policy, Project and Resources Committee reported revised working balance positions following the 2016/17 outturn. And the capital programme was amended for any carried forwards/slippage to specific projects.

4. General Fund

- 4.1 The General Fund Revenue position as approved on 1 March 2017 and the revised working balances as at 20 June 2017 is outlined in Table 1.

Table 1 – General Fund Revenue Revised Position as at 1 March 2017

	2017/18	2018/19	2019/20
	£'000	£'000	£'000
Total General Fund Net Expenditure	9,769	9,867	9,851
Total Funding	(9,486)	(8,360)	(7,807)
Funding Gap	283	1,537	2,044
Working Balance b/fwd	3,742	2,991	1,383
Less:- Funding Gap	283	1,537	2,044
Earmarked for WHW	350	Nil	Nil
Earmarked for Town Hall Project	118	71	Nil
Working Balance c/fwd	2,991	1,383	(661)

- 4.2 This position is an indication of what the Council has achieved since March 2015, when original 2017/18 closing working balances were predicated to be only £755k, compared to the above table that is now showing just under £3m, and within minimum reserve levels.
- 4.3 This position also highlights, the challenges in which the Council still faces, if no further action is taken to reduce the funding gap.

Finance Settlement

- 4.4 As detailed information on funding will not be available till late December 2017, the funding assumptions are as per those reported at the budget setting meeting on 1 March 2017. These are detailed in the paragraphs below.

Revenue Support Grant

- 4.5 As announced in December 2015, Revenue Support Grant (RSG) will be phased out entirely by 2019/20. This will 'pave the way for the implementation of 100% business rate retention' and will assess the main income streams available to local government.

Business Rate Retention

- 4.6 The Council is currently part of the Essex Wide Pool for Business Rates in 2017/18. From 2018/19 the pool will consist of fifteen Essex local authorities including Essex County Council, Essex Fire Authority, one unitary and twelve 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 2018/19 due to the uncertainty of the surplus that could be received.
- 4.7 On 26th October 2017, The Council agreed to be part of a pilot "pool" submitted to DCLG by Essex County Council, for 100% Business Rates Retention in 2018/19, The outcome of the pilot bids are yet unknown, so no adjustments have been made to the medium term financial plan. The Council is expected to find out whether the Essex wide bid is successful before the Finance settlement is announced.
- 4.8 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.
- 4.9 The Business Rates retention figure in the MTFP 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 3. 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.

New Homes Bonus Grant

4.10 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.

4.11 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 were 6 years' in 2016/17 which reduced 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.

Table 2 – New Homes Bonus Grant Profile

	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
	£'000	£'000	£'000	£'000	£'000	£'000	Est £'000	Est £'000	Est £'000	Est £'000
Yr 1	255	255	255	255	255	255				
Yr 2		214	214	214	214	214				
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	1
Yr 8								1	1	1
Yr 9									1	1
TOTAL	255	469	799	1,215	1,456	1,623	1,155	410	170	1

Government Funding

4.12 A table summarising the Medium Term Financial Plan's Expected Government funding is shown in Table 3.

4.13 Figures for 2020/21 are still indicative and will become clearer, once the Finance Settlement is announced in December. They have been forecasted based on the Information that is currently known.

Table 3 – Government Funding Expected

	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Indicative £'000
Revenue Support Grant	233	Nil	Nil	Nil
Tariff/Top-Up Adjustment	Nil	(52)	(370)	(370)
Business Rates Retention	1,798	1,798	1,798	1,798
New Homes Bonus	1,155	410	170	1
TOTAL	3,186	2,156	1,598	1,429

4.14 The Expected decrease in Funding from 2017/18 is expected to be about £1.7m which is a clear indication of why the Council continues to face the present Funding Gap

Planning Assumptions for 2018/19 to 2020/21 Pay Awards (Inflation)

4.15 For financial planning purposes a 1% increase has been included for 2018/19 onwards.

Pressures

4.16 The current pressures for the Medium Term Financial Plan are outlined in Table 4

Table 4 – Current Pressures

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Apprenticeship Levy	22	22	22	22
Insurance Premium Tax	52	52	52	52
Employer Pension Contribution	-	170	170	170
Inflation Rates to 3%	23	23	23	23
Trade Waste Disposal	60	-	-	-
TOTAL	157	267	267	267

4.17 Apprenticeship Levy: The Government introduced a new scheme in 2017/18 to encourage employers to invest in apprentices. The Council can claw this pressure back as a resource to provide training through the levy, but the levy paid to HMRC will be a growth on the existing MTFP. The Councils proposes to fund the cost of the apprentices within existing vacancies and budgets.

4.18 Insurance Premium Tax: This increased to 12% from June 2017 which now needs to be implemented within the Councils MTFP.

- 4.19 Employer Pension Contributions: Employer contributions have increased from 14.2% to 17.1%. This came into effect from April 2017 which now needs to be implemented within the MTFP. This figure is indicative to date and could be alleviated for future vacancy factors.
- 4.20 Inflation Rates to 3%: currently the Council has provided inflationary budgets at 1.5%, this needs to be in line with the current rate of inflation to avoid pressures within the MTFP.
- 4.21 Trade Waste Disposal: There are current in year pressures for disposal of waste. The Council is under going a review to identify if this is ongoing.

Funding/anticipated savings

- 4.22 The current increase in funding and anticipated savings are outlined in Table 5

Table 5 – Increase in Funding/Anticipated Savings

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Increase in Council Tax Base (assumes no increase in Council Tax)	Nil	(62)	(86)	(109)
Parking Charges Income	(95)	(400)	(400)	(400)
NNDR Income	(100)	-	-	-
TOTAL	(195)	(462)	(486)	(569)

- 4.23 Council Tax Base: It is estimated that the Council Tax base will increase by around 348 Band D equivalent properties then what was forecast for 18/19. The impact of this will be an increase in income of around £62k to that already budgeted for in the MTFP report agreed on 1 March 2017, future years Tax Base are then forecasted from this position..
- 4.24 Parking Income: By implementing recent parking orders from committee reports approved in July and September, the Council can now included a savings target for parking income into the MTFP.
- 4.25 NNDR Income: Projected saving on reduction to levy payments to the Essex wide Business Rates Pool. Due to the uncertainty of the pool position this is annually considered as a one off saving.
- 4.26 Council Tax: Members should note that if a decision is made to increase the Council Tax by the amount permitted without having a referendum, (which currently is an increase of up to 2% or £5 (whichever is the higher

figure) for a Band D property), this would provide additional income and also increase the Council's base budget position by £160k in 2018/19.

Summary on General Fund

- 4.27 Table 6 shows the impact on the original funding position together with the updated information identified through the mid year budget review process.

Table 6 – Revised General Fund Medium Term Financial Position

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Total Net Forecast Spend	9,769	9,897	9,851	9,950
Total Funding	(9,486)	(8,360)	(7,807)	(7,644)
Funding Gap	283	1,537	2,044	2,306
Current Pressures	157	267	267	267
Funding/Anticipated Savings	(195)	(462)	(486)	(569)
Total Funding Gap	245	1,342	1,825	2,004
Working Balance b/fwd	3,742	3,029	1,616	(209)
Less: Total Funding Gap	245	1,342	1,825	2,004
Less: Earmarked spend on balances*	468	71	-	-
Working Balance c/fwd	3,029	1,616	(209)	(2,213)

* Earmarked spend from working balances relates to William Hunter Way and Town Hall Project

- 4.28 Table 6 identifies a potential funding gap of around £5.1m over the next 3 years. Based on current funding and operational costs the Council continues to develop both medium and longer term strategy to reduce costs and generate significant income to the Council in order to bridge the funding gap. Additional details will be brought to Policy, Projects and Resources Committee

Working Balances and Reserves

- 4.29 A minimum General Fund Working Balance of £2.2m has been agreed. In accordance with best practice, an annual risk assessment will be undertaken to check the level required for 2018/19. An internal audit

report has also been commissioned to health check the minimum level of reserves for the Council. Due to the size of the gap it is likely savings will continue to be developed throughout 2018/19 to reduce the draw down from reserves.

4.30 In addition to 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 accounting practice, whilst others have been created to earmark resources for known predicted liabilities. The Balance of these Reserves as at 1 April 2017 was £4.9m and a full list can be found in the Statement of Accounts 2016/17. They include:

- Organisational Transformation - £1.65m
- Earmarked Specific Grants - £1.61m
- Funding Reserves - £1.05m
- Service Area Reserves - £555k
- Trading Account Reserves - £83k

5. Capital Programme

5.1 The capital programme was agreed on 1 March 2017. This was subsequently updated with carry forwards from 2016/17 outturn, which were agreed on 20 June 2017.

5.2 On 19 September 2017 members agreed to continue structural works on the Multi Story Car Park. £2m will be allocated to the programme for the project.

5.3 On 20th June 2017, it was agreed at Policy, Projects and Resources Committee for the development of two semi-detached properties in King Edward Road.

5.4 As agreed at Committee, on 20th June 2017, vehicle replacement programme slippage will be used to fund the Waste Transfer Station.

5.5 The revised capital programme including the changes above is shown in Table 7

Table 7 – Revised Capital Programme

Description	I*	2017/18	2018/19	2019/20
		£'000	£'000	£'000
Town Hall Remodelling	I	1,900	4,703	3,919
Parking Scheme at Brentwood & Shenfield	I	1,000	-	-
Vehicle & Plant Replacement Programme		734	175	175
King Edward Road	I	500	-	-
Waste Transfer Station	I	335	-	-
Disabled Facilities Grant		250	250	250
Warley Playing Fields – Sports Pavilion		172	-	-
Play Area Refurbishments		170	-	-
Multi Storey Car Park	I	100	1,900	
ICT Strategy	I	100	100	-
Car Park Improvements		100	-	-
Leisure Strategy	I	100	-	-
Asset Improvements		100	100	-
Parks Infrastructure Improvements		100	-	-
Cemetery Infrastructure Improvements		100	-	-
ICT - Azure & Skype Implementation		100	-	-
ICT - End User Device Implementation		75	-	25
CRM Project		41	-	-
Renaissance Group		39	-	-
Cemetery Headstones		33	20	
Home Repair Assistance Grant		30	30	30
Irrigation to Golf Course		30	-	-
PCI compliance Project		10	-	-
Noise, Nuisance Recorder System		8	-	-
CCTV System Upgrade		5	5	-
TOTAL GENERAL FUND		6,132	7,283	4,399
HRA Decent Homes		3,969	3,000	3,000
New Homes Build		3,314	1,479	7,310
TOTAL HRA		7,283	4,479	10,310
TOTAL CAPITAL PROGRAMME		13,415	11,762	14,709

* Represents Investment to Save Projects

5.6 The Key Capital variances to the program, currently include the following:

- Parking Scheme at Brentwood & Shenfield (£1m) – On Review as part of the Asset Development Program.
- King Edward Road (£500k) - development is currently on hold and is being included as part of the Asset Development Program.
- Town Hall Remodelling Project - (£400k) Expected slippage due to classifying expenditure as Revenue.
- Play Area Refurbishments (£150k) – Is being reviewed as part of the Leisure Strategy.
- Leisure Strategy (£100k) – No Planned works until Strategy is finalised.
- Car Park Improvements (£100k) – No Planned works and is being reviewed with the Asset Development Program.

5.7 Any final Slippage to the projects that is required, will be reviewed and funded from Capital Receipts as originally budgeted.

5.8 New capital bids received from service managers are currently being reviewed and will be included in the MTFP in the final Budget report in March, which will in turn populate forecasts for 2020/21.

5.9 Highlighted in Table 7, are projects within the Capital Programme that are investment to save opportunities which the Council is driving to seek return on investment or efficiency savings from those Projects. This continues to help having the right needed balance between Capital Expenditure and the Revenue Streams that build into the General Fund and HRA.

Capital Sources of Funding

5.10 General Fund and HRA Capital Expenditure shown above is financed by the table below.

Table 8 – Capital Sources of Funding

	2017/18	2018/19	2019/20
	Estimated £'000	Estimate £'000	Estimate £'000
General Fund	6,132	7,283	4,399
HRA	7,283	4,479	10,310
Total capital expenditure	13,415	11,762	14,709
Financed by:			
Capital Receipts (GF)	(4,706)	(2,160)	(500)
Capital Receipts (HRA)	(994)	(444)	(2,193)
Revenue contributions (HRA)	(2,717)	(1,035)	(2,908)
Government grants	(250)	(250)	(250)
S106 agreements (HRA)	(808)	0	0
HRA business plan	(2,764)	(3,000)	(3,000)
Borrowing	(1,176)	(4,873)	(5,858)
Total Financing	(13,415)	(11,762)	(14,709)

5.11 Capital receipts Reserve as at 31st March 2017 was £5m for General Fund and £3m for HRA. With the current capital programme, the council will see a reduction in capital receipts, which would lead to borrowing for future schemes from 2018/19. The Council is currently finalising its Asset Development Programme, which should secure future Capital receipts within the Medium Term Financial Plan, an essential part of financial management.

Asset Development Programme (ADP)

5.12 An Asset development programme is currently being finalised, and updates are being reported to each Policy, Project and Resources committee where resolutions are required.

5.13 The ADP will produce a stream of Revenue and Capital inflows to the Council, both in the short term and the longer term. A programme is being drafted to reflect those items which can be delivered quickly and those with a longer lead in. This will secure Capital Receipts to enable the Council to set a sustainable Capital Programme as well as reduce the Council's funding gap.

6. Housing Revenue Account

6.1 On 1st March 2017 at Ordinary Council, The Housing Revenue Account was set with a 2017/18 surplus of £450k .

6.2 On the 20th June 2017, Policy, Finance and Resources Committee reported the 2016/17 Housing Revenue Account outturn as a surplus of £183k. This has led to carried forward working balance of £1,546k.

6.3 The Revised position for the Housing Revenue Account is shown in Table 9.

Table 9 – Housing Revenue Account Position

	2017/18 Revised	2018/19 Estimated	2019/20 Estimated	2020/21 Estimated
	£'000	£'000	£'000	£'000
Total Housing Service Expenditure	8,562	8,529	8,782	8,801
Total Housing Service Income	(13,168)	(13,073)	(12,961)	(13,298)
Non Service Costs	3,129	4,192	3,906	4,223
Appropriations	1,027	0	0	0
(Surplus)/Deficit for HRA	(450)	(352)	(273)	(274)
Working Balance b/fwd	1,546	1,996	2,348	2,621
(Surplus)/Deficit for HRA	(450)	(352)	(273)	(274)
Working Balance c/fwd	1,996	2,348	2,621	2,895

6.4 Overall the Housing Revenue Account is not expected to change from the Original budgeted surplus position for 2017/18, however the surplus position has slightly increased from 2018/19, from what was originally forecasted in March.

6.5 This surplus, is mainly driven from reduction in insurance costs, due to the shops transfer to the General Fund (£52k) as well as the Concierge Scheme no longer active (£46k).

6.6 It is also assumed, that from 2020/21 Rents could increase by CPI plus 1%, after the 4 year agreement has ceased to reduce by 1%.

7 Reasons for Recommendation

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

8 Consultation

- 8.1 None

9 References to Corporate Plan

- 9.1 The Medium Term Financial Plan is linked to achieving the vision in the corporate plan.

10 Implications

Financial Implications

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

Legal Implications

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

Other Implications - Risk Management

- 10.3 Finance Pressures is an existing Risk on the Council Strategic Risk register. The outcome of this Mid year Review has not altered the current risk rating of this specific risk, which is currently set at the highest level.

11 Background Papers

- 11.1 Budget Report approved 1 March 2017

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