6 March 2018

Ordinary Council

Medium Term Financial Plan 2018/19 – 2020/21

Report of: *Jacqueline Van Mellaerts, Financial Service Manager (Deputy Section 151)*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

1.1 The Medium Term Financial Plan (MTFP) considered by Policy, Projects and Resources Committee on 29 November 2017 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 2018/19 to 2020/21.

(ii) The Housing Revenue Account (HRA) budget proposals for 2018/19 onwards.

(iii) The Capital Programme 2018/19 to 2020/21.

(iv) The Treasury Management Strategy for 2018/19.

2. Recommendations

General Fund:

2.1 To approve the General Fund - Revised MTFP for 2018/19 as shown in Table 9 which includes the proposed savings target, presenting a zero net Funding Gap for 2018/19.

Housing Revenue Account (HRA)

2.2 To approve the HRA Business Plan for 2018/19 and beyond as shown in Appendix C of this report.

2.3 To approve a 1% decrease in rents for 2018/19 and for the following year.

2.4 To recommend to apply the formula rent to all new tenancies from April 2018/19.

Capital programme

2.5 To approve the Existing and New Schemes of the proposed Capital Programme for 2018/19 to 2020/21 as set out in Tables 16 and 17 of this report.

Treasury Strategy

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

Section 151 Officer's Assurance Statement

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 reported 1 March 2017.
- Table 1D - 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 maintaining a focus 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 continuing to work with existing and new partners, and is constantly looking at ways to improve its offering to residents. A key element of his will be the leveraging of the Council's assets and the long-term return it expects, this during an uncertain economic period.

3.4 A comparison of the working balances In Table 1 for the four years (2017/2108: 2018/2019: 2019/20: 2020/21) 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. As an example of this, the reduction in government funding since 2015/2016 to that estimated to be received in 2018/19 is £2 million.

3.5 Further evidence of strong financial management is that, in March 2016, the Council was looking at a working balance for 2018/19 of a negative £3.6million. Work undertaken since March 2016, means that we are expecting to be delivering a working balance at the end of 2018/19 of £3.1million. An improvement of £6.7million. Most importantly our services continue to be improved, examples of this are:

a. The Planning, Development Management, department is now ranked 7th in the UK, and 1st in Essex.

b. Our Environmental Health Department is ranked in the top 3, nationally

c. We have won awards for our partnership work in Revs and Bens

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 Council still works towards achieving a more robust financial position as it moves forwards to self financing by adapting to changes in circumstances and making adjustments which are necessary.

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	2020/21 £'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	2020/21 £'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 reported 1 March 2017.

	2015/16 Outturn £'000	2016/17 Estimated Outturn £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Funding Gap	194	285	283	1,537	2,044	-
Working Balance c/fwd	3,965	3,380	2,629	1,021	(1,023)	-

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

	2015/16 Outturn £'000	2016/17 Outturn £'000	2017/18 Estimated Outturn £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Funding Gap	194	0	274	0	385	298
Working Balance c/fwd	3,965	3,742	3,118	3,118	2,733	2,435

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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 coming year.

- **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 2018/19 and Medium Term Financial Plan to 2020/21

5.1 At its meeting on 29 November 2017, the Policy, Finance and Resources Committee received information on initial funding and proposals for the MTFP. In accordance with the Budget and Policy Framework.

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 2017/18 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 2018 set out in this report. Any variation from this at the year end will be reported to Policy, Projects and Resources Committee in June 2018 with recommendations from the Section 151 Officer regarding any surplus or deficit balances.

Demographic Changes

5.5 Between 2004 and 2016, the population across Brentwood increased by 8.9%. This compares to an average increase of 9.14% 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 1.9% for December 2017. This compares to an unemployment rate across Brentwood of 0.8%.

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 2015	March 2016	March 2017	March 2018 Estimate
Housing Benefit	3,024	2,919	2,859	2,642
Local Council Tax Support	3,751	3,522	3,479	3,268

2018/19 Provisional Local Government Finance Announcement

5.9 The Provisional Local Government Finance Settlement for 2018/19 was announced on 19 December 2017. This covered the consultation on local government finance settlement for 2018/19 with indicative figures provided until 2019/20. Key issues from the announcement are outlined below:

- The 2018/19 New Homes Bonus remains based on 4 years from 2018/19 with the scheme only rewarding growth in homes above 0.4% per annum. Previous figures were only indicative however there has been no change to allocation.
- The government has published a consultation paper "Fair funding review: a review of relative needs and resources". The Secretary of State stated the result of the review will be introduced in 2020/21 and future years settlements.
- In September 2017, the government invited authorities to bid for pilot status for 100% Business Rates Retention for 2018/19. Following a competitive process, 10 authorities have been awarded pilot scheme, which does not include Brentwood Council, alongside an expanded London Pilot.
- A consultation will take place in Spring 2018 regarding the current £153m in negative RSG funding that remains in the 2019/20 funding allocations as a Top Up/Tariff Adjustments.
- There has been an increase to the referendum limit for Council Tax from 2% to 3%

Revenue Support Grant

5.10 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. The RSG allocations previously announced at 2016/17 settlement are unchanged. Brentwood's allocation was as follows.

Table 3 – Government Funding

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

5.11 However, due to the approach taken in making the reductions to RSG, the top up/tariff adjustments have hit high tax base/high tax rate authorities. The current settlement announcement has removed the negative RSG for 2018/19, leaving only the adjusted amounts for 2019/20.

Table 3a – Government Funding

	2017/18 £'000	2018/19 £'000	2019/20 Indicative £'000	2020/21 Indicative £'000
Revenue Support Grant	233	Nil	Nil	Nil
Tariff/Top-Up adjustment	Nil	Nil	(370)	(370)
TOTAL	**233**	**Nil**	**(370)**	**(370)**

5.12 A consultation will take place in Spring 2018 regarding 'negative RSG'. The outcome of this consultation will feed into the 2019/20 local government finance settlement. The purpose is to look into a fair and affordable option for dealing with Negative RSG.

5.13 There has been no forecasts announced yet for years 2020/21 and beyond. Until the results of the consultation are received, it has been assumed that 2019/20 will also continue into 2020/21.

5.14 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 2018/19 due to the uncertainty of the pool position, and any surplus/deficits are monitored in year.

Business Rates Retention

5.15 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 2018/19 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

	2017/18 Indicative £'000	2018/19 Indicative £'000	2019/20 Indicative £'000	2020/21 Indicative £'000
Business Rates Retention	1,798	2,220	2,220	2,220

5.16 The increase in Business Rates Retention from 2017/18 to 2018/19 is mainly due to:

a) 3% increase in the business rates multiplier, partly offset by an increased tariff payment to the Essex Business Rates Pool

b) an increase in the S31 Grant relating to small business rates relief.

New Homes Bonus Grant

5.17 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.

5.18 The grant for 2018/19 onwards is based upon 4 years and the scheme will now also only reward growth in homes above 0.4% per annum.

5.19 For 2018/19, the Council is due to receive £0.410m in New Homes Bonus Grant. 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 £'000	18/19 Est £'000	19/20 Est £'000	20/21 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**	**3**

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

5.20 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.

5.21 Since its introduction in 2011/12, the Council has used the New Homes Bonus Grant to support the General Fund Budget. For 2018/19, the Council will continue to treat the grant funding as general financial support.

Total Government Funding

5.22 A table summarising the Medium Term Financial Plan's Total Government funding arising from the Local Government Finance Settlement since 2015/16 and Business Rates is shown in Table 6

Table 6 – Summary of Government Funding

	2015/16 Actual £'000	2016/17 Actual £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Revenue Support Grant	1,259	710	233	Nil	Nil	Nil
Tariff-Top Up Adjustment	Nil	Nil	Nil	Nil	(370)	(370)
News Homes Bonus	1,460	1,625	1,155	410	170	3
Total	**2,719**	**2,335**	**1,388**	**410**	**(200)**	**(367)**
Business Rates Retention	1,867	1,751	1,798	2,220	2,220	2,220
Total	**4,586**	**4,086**	**3,186**	**2,630**	**2,020**	**1,853**

5.23 Since 2015/16 to 2020/21 Government Funding without including Business Rates Retention shows a reduction of £3m, highlighting the continuous financial pressures the Council has been facing,

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 2018/19 is 32,592.60 (agreed by the Deputy Section 151 Officer on 7 December 2017 under delegated authority). This compares to a figure of 32,084.1 for 2017/18. 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 £1,035,000 to be distributed in respect of Council Tax by 31 March 2018. Table 7 shows how this will be distributed.

Table 7 – 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 2018/19.

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 2018/19 to reduce our Council Tax Requirement for that year.

Retained Business Rates

7.4 It is estimated that there will be a deficit of £750,000, of which Brentwood Borough Council's share is £300,000.

Table 8 – Estimated Business Rates Collection Fund Deficit Distribution

Authority	Amount £
Brentwood Borough Council	300,000
Essex County Council	68,000
Essex Fire Authority	7,000
Central Government	375,000

8 General Fund Revenue Budget

Position Statement

8.1 Overall Revenue Forecast Position to 2020/21 is covered herein

8.2 The summary revenue budget and forecast to 2020/21 is outlined in Table 9.

Table 9 – Summary Revenue Budget & Forecast to 2020/21

	2017/18 Estimated Outturn £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Total General Fund Net Expenditure	9,769	9,897	9,851	9,950
Total Funding	(9,486)	(8,360)	(7,807)	(7,644)
Original Funding Gap	**283**	**1,537**	**2,044**	**2,306**
Current Pressures	157	877	936	969
Funding/Anticipated Savings	-	(1,378)	(1,410)	(1,954)
Revised Funding Gap	**274**	**1,036**	**1,798**	**1,691**
Less: Net Savings Targets	**-**	**(1,036)**	**(1,413)**	**(1,393)**
Net Funding Gap	**274**	**0**	**385**	**298**
Working Balance b/fwd	**3,742**	**3,118**	**3,118**	**2,733**
Funding Gap	**274**	**0**	**385**	**298**
Less: Earmarked spend on balances	**350**	**Nil***	**Nil**	**Nil**
Working Balance c/fwd	**3,118**	**3,118**	**2,733**	**2,435**

* **Earmarked spend from working balances relates to William Hunter Way. Town Hall Project model is built into current pressures/savings.**

8.3 The projected outturn for 2017/18, after projected savings targets, of £274k (or 2.68% of net expenditure) there has been no major movement as reported to this Committee on 29 November 2017.

Pressures

8.4 The current pressures for the Medium Term Financial Plan are outlined in Table 10.

Table 10 – Current Pressures

Description	2017/18 £'000	2018/19 £'000
Apprenticeship Levy	22	22
Insurance Premium Tax	52	58
Employer Pension Contribution	-	268
Inflation Rates to 3%	23	61
Trade Waste Disposal	60	70
Computing Costs	-	24
Contracted Service	-	30
Loss of Investment income	-	57
Collection Fund deficit	-	175
Recycling Credit Income	-	22
Managed/Contracted Service	-	90
TOTAL	**157**	**877**

8.5 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.

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

8.7 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 through future vacancy factors.

8.8 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.

8.9 Trade Waste Disposal: There are current in year pressures for disposal of waste.

8.10 Computing Costs: As part of the Town Hall Redevelopment, cloud working has been invested to allow the transition to remote and improved working.

8.11 Contracted Service: The Council has entered into an arrangement with Epping Forest council for Corporate Fraud.

8.12 Loss of investment Income: Internal Borrowing to fund the capital program means returns on surplus cash will decrease, even with growth in interest rates.

8.13 Collection fund Deficit: This is explained in Section 7 Collection Fund.

8.14 Recycling Credit income: As the demand for recycling drops, the price per tonne fluctuates and is expected to decrease.

8.15 Managed Service: Planning and Environmental Services management is provided by Thurrock Council. Investment in this has seen the Council's national ranking significantly increase as the service is improved. Plus growth with current service arrangement for growth in costs.

Funding/anticipated savings

8.16 The current increase in funding and anticipated savings are outlined in Table 11

Table 11 – Increase in Funding/Anticipated Savings

	2017/18 £'000	**2018/19 £'000**
Increase in Council Tax Base (assumes no increase in Council Tax)	Nil	(62)
Parking Charges Income	(95)	(400)
NNDR Income	(100)	-
Service Review	-	(17)
Discretionary Grant reductions	-	(39)
Procurement Savings	-	(52)
Negative RSG	-	(52)
Fees & Charges	-	(222)
Town Hall	-	(14)
Capital financing costs	-	(98)
Business Rates Retention	-	(422)
TOTAL	**(195)**	**(1,378)**

8.17 Council Tax Base: It is estimated that the Council Tax base will increase by around 348 Band D equivalent properties than 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.

8.18 Parking Income: By implementing recent parking orders from committee reports approved in July and September, the Council can now include a savings target for parking income into the MTFP.

8.19 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.

8.20 Service Review: Savings regarding the new HR and Payroll contract.

8.21 Discretionary Grants: Parish grant, as previously discussed to be removed completely. Parish grant has been cut on a gradual basis. Reduction in other grants such as Thames Chase and Women's Refuge as service no longer provided.

8.22 Procurement Savings on contract management by identifying the needs of the Council and reducing the costs. This is for line rental, stationary and repairs and maintenance on Council assets.

8.23 Negative RSG: As announced in the Local Government Finance Settlement, negative RSG will not be charged while a consultation is ongoing.

8.24 Fees & Charges: Fees and charges have been increased for 20181- and the MTFP assumes growth in the Fees and Charges of 3% whether that is increase in charges or volume.

8.25 Town Hall: The build for the town Hall should be completed by 2020, the increase is due to income expected to be received for the Hub as well as commercial space. Also recognised is the full years saving for Business Rates and other associated costs.

8.26 Capital financing Costs: Reduction in Minimum Revenue Provision as less borrowing needed to fund the capital program.

8.27 Business Rates: Additional Income is forecasted to be received in Section 31 Grants and a 3% increase in the Multiplier has increased the Business Rates Base position.

8.28 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 3% 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 £174k in 2018/19.

Addressing the Revised Funding Gap

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

8.30 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.

8.31 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.

8.32 An enormous amount of effort has gone into securing this position for the Council. As an example, in March 2016 the Council was looking at a working balance for 2018/19 of a negative £3.6million. Work undertaken since March 2016, means that we are expecting to be delivering a working balance at the end of 2018/19 of £3.1million. An improvement of £6.7million. Most importantly our services continue to be improved.

8.33 Other key areas that are being developed are:

- Commercialisation and the generation of income from the Council's assets.
- Depot Strategy.
- Town Centre Strategy. Plans are underway to redevelop and stimulate the local economy in the town centre.
- Leisure Strategy.
- Asset Development Program.

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

Pay Awards

8.35 The Council is not part of any national terms and conditions for local government employees. Most commonly known as NJC pay scale. These pay scales are results of negotiations between trade unions and Local Government Association. Negotiation and consultation is conducted at a local level in relation to levels of pay and benefits for all employees. Local negotiations around pay review are conducted on an annual basis, and any increase is agreed taking into account inflationary factors, local salary levels, affordability and any national award. Based on this a 1% pay award has been built within the MTFP for all years from 2018/19.

8.36 Due to the Council's improved financial position for 2016/17, it was agreed that the staff were to receive a one-off bonus of 1% at Ordinary Council in 18th October 2017. To recognise the work that had gone in to achieving a better financial position than forecasted. 1% pay award is reflected with the current MTFP as suitable increase in these uncertain financial times. The pay award will be reviewed annually and discussed with relevant representatives.

Working Balances and Reserves

8.37 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.

8.38 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.

8.39 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').

8.39 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.

8.40 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.

8.41 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).

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

8.42 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.

8.43 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.

8.44 As part of the budget approved in March 2017, 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 2018/19. This assessment has been assessed alongside the Council's strategic Risk register. Revised calculations, supported by an Internal Audit review, show that the assessed level should remain at £2.2million.

8.45 Although this report on adequacy of reserves is specific to 2018/19, the Council should bear in mind that adequacy should also be judged against longer-term plans.

8.46 The Council is currently predicting the continuation of significant financial pressures every year with the General Fund Reserves further depleted during 2020/21. 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.

8.47 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 2017 was around £4.956 million. A list of the Earmarked Reserves is attached as Appendix A.

Fees and Charges 2018/19

8.48 Proposed Fees and Charges have been taken to the appropriate Council Committee during the financial year 2017/18. The agreed fees and charges have been collated together for information to form Brentwood Borough Councils Fees and Charges Schedule attached as Appendix B.

Contract Register

8.49 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.

8.50 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 Following the Provisional Local Government Settlement 2018/19 announced in December 2017 the Council Tax referendum limit has increased from 2% to 3%. For 2018/19 Councils Tax can now increase by £5 or 3% (which ever is the higher limit). This will apply to categories of authority set out by the referendum principals report which include Borough Councils.

9.3 Members are reminded that the Provisional Local Government Settlement 2018/19 announced in December 2017 assumes that Councils will increase Council Tax levels. By increasing the Council Tax by the £5 or 3% and applying the same increase in future years the Council would be able to increase income as well as its budget base by:

Table 12 – Council Tax Increase options

Year	1% Increase in Council Tax	2% Increase in Council Tax	£5 Increase in Council Tax	3% Increase in Council Tax
2018/19	58	116	163	174
2019/20	116	233	327	349
2020/21	175	350	491	525

9.4 Parish Councils are not subject to the referendum limit. The government indicated, in the technical consultation on the 2018/19 Local Government Finance Settlement, that it was reviewing whether Parish councils are demonstrating restraint in setting their local precept. In the provisional settlement, the government announced it will defer the setting of referendum principals for three years.

10. Housing Revenue Account (HRA) Budget 2018/19

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 have been updated in line with the Service Charge policy agreed at Community, Health and Housing committee 18th September 2017.

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:

- 2018/19 – Cost price less 20%
- 2019/20 – Cost price less 15%
- 2020/21 – Cost price less 10%

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 Community, Health and Housing Committee of 4 December 2017 and are attached as Appendix B.

Projected Outturn 2017/18

10.12 The estimated outturn for the HRA Fund is a potential surplus £450k as at 31 March 2018 which is in line with the original budget for 2017/18 which projected a surplus of £450k. The anticipated surplus will deliver a working balance at the end of the financial year of £2.106 million and an earmarked reserve balance of £2.970 million.

10.13 The HRA budget for 2018/19 indicates a surplus of £117k. The key variations from the budget are:

- The budget for Repairs and Maintenance has decreased by £350k. A reflection of contract management between council and the contractor.

- Employee Costs for General Management have decreased by 118k based on the new housing structure.

- Loss of Supporting people Grant of £105k.

- Dwelling Rent Income decreases by £249k 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.

- Depreciation charge has increased by £46k this is used to fund the capital program. In addition to this more revenue £669k is to be contributed to the Affordable Housing Development Program to fund that capital project.

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 2018/19 to 2020/21 is expected to be £1.9 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 2018 is £2.570 million. The MTFP assumes voluntary annual contributions of between £100k to £500k per annum for the period 2017/18-2020/21 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.

Rent Levels

10.19 For the last six 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 2015, rent policy 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 this rent policy, the main changes are:

- Current rents to reduce by 1% from 2016-17 to 2019-20
- Formula Rents can still be applied to all new tenancies, these must also reduce by 1% from 2016-17 to 2019-20

10.22 The rent year for 2018/19 will commence on 2 April 2018 and finish on 1 April 2019. It will be a 52 week rent year.

10.23 The Rent Model for 2018/19 applies the Governments assumptions as part of the new Welfare Reform and Work Bill 2015/16.

10.24 From 2020/21 the Government is proposing to allow Councils to increase rents by CPI + 1%. This is a welcomed response from Council's nationwide as it gives Council's the stability and certainty it needs to build more desperately needed new homes and to invest in their existing homes and services for tenants

Self Financing Settlement

10.25 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.

10.26 Table 13 shows the profiles of the loans that the Council holds regarding the Self Financing Debt

Table 13 - Profile of HRA Loans

Loan Amount	Number of Years Held	Date Repayable	Interest %
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

10.27 The HRA Business Plan from 2012/13 had been setting aside monies from surplus cash, to repay the loans. As at 31 March 2017 the amount set aside is £1.6 million. The Council repaid £5 million on 28/03/2017, leaving the total loans outstanding at a value of £59.166 million

10.28 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.

Currently the business plan assumes the outstanding loans will not need to be re-profiled and that the HRA can still afford to fund the proposed capital and Affordable Housing development Program. However, any additional works needed from the capital program or Affordable Housing Program will need to be funding by borrowing.

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 2018/19 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 £11.624m (2017/18 £11.906m). The allowance for properties empty ("Voids") between letting will be 0.5%, therefore the expected Void budget will be £58k (2017/18 £59k).

10.32 Based on the current rent policy, the HRA rental income decreases by £249k in 2018/19.

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 has been carried out during 2017/18 in order to inform the charging policy going forward.

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

HRA Business Plan

10.38 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 C.

10.39 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 an average £1.2m for 2018/19 and the following 2 years after. It is then assumed an average annual capital programme will be £2.9m after 2020/21
- Delivering an Affordable Housing Development Programme in addition to the Decent Home Capital programme. This averages at £4.395m for 2018/19 and 2019/20 and £2 million from 2020/21 onwards. This programme is also dependent on the number of right to buy sales made.
- No allowance has been made for growth bids.
- Affordability for tenants.
- The 1% decrease has been applied to rental income for the next year and then rental income is to be increased from 2020/21 by CPI + 1%.

11. Capital Programme

11.1 This section considers the Capital Programme and supporting Strategy for the period 2018/19 to 2020/21.

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 2017/18 is outlined in Table 14.

Table 14 – Retained Receipts for 2017/18

2017/18	April to Jun	July to Sep	Oct to Dec	Jan to March	Total
Number of RTBs	3	3	4	3	**13**
Total Value (£'000)	406	441	611	406	**1,864**
Average Value (£'000)	135	147	153	135	**143**
Value of RTB Retained (£'000)	193	66	346	193	**798**
Expenditure required (£'000)	645	220	1,153	645	**2,663**
Date to be spent by	**30/06/20**	**30/09/20**	**31/12/20**	**31/03/21**	

11.10 The last quarter in 2018/19 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 2018 is £2,656,095.

11.11 A forecast of Retained Receipts is outlined in Table 15.

Table 15 – Retained Receipts Forecast

	2018/19	2019/20	2020/21	2021/22
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; 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. If the program cannot be fully funded by revenue or Section 106 contributions, then the HRA will borrow to fund the remaining project. The need to borrow is reviewed on an annual basis along with the 30 year business plan.

11.19 Following on from the Revised Capital Programme reported on 29th November 2017 Policy, Projects and Resources meeting. Table 16 outlines the Existing investment proposals for 2018/19 to 2020/21.

11.20 The existing schemes do not include projected carry forwards from 2017/18. Any slippage on the Capital Projects will be decided once the final outturn 2017/18 is confirmed and referred back to Committee.

Table 16 – Capital Programme 2018/19 to 2020/21 – Existing Schemes

Description	2017/18 Estimated £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Town Hall Remodelling	1,673	4,703	3,919	-
Parking Scheme at Brentwood & Shenfield	-	-	-	-
Vehicle & Plant Replacement Programme	175	175	175	-
King Edward Road	-	-	-	-
Waste Transfer Station	335	-	-	-
Disabled Facilities Grant	250	250	250	250*
Warley Playing Fields – Sports Pavilion	2	-	-	-
Play Area Refurbishments	20	-	-	-
Multi Storey Car Park	124	1,900		-
ICT Strategy	100	100	100*	100*
Car Park Improvements	-	-	-	-
Leisure Strategy	-	-	-	-
Asset Improvements	145	100	-	-
Parks Infrastructure Improvements	70	-	-	-
Cemetery Infrastructure Improvements	100	-	-	-
ICT - Azure & Skype Implementation	80	-	-	-
ICT - End User Device Implementation	60	-	25	-
CRM Project	41	-	-	-
Renaissance Group	39	-	-	-
Cemetery Headstones	33	20		-
Home Repair Assistance Grant	30	30	30	30*
Irrigation to Golf Course	30	-	-	-
PCI compliance Project	10	-	-	-
Noise, Nuisance Recorder System	8	-	-	-
CCTV System Upgrade	5	5	-	-
Open Space Incursions	25	-	-	-
Asset Development Program	481	-	-	-
Mascals park (S106)	7	-	-	-
TOTAL GENERAL FUND	**3,673**	**7,283**	**4,499**	**380**
HRA Decent Homes	1,055	921	1,021	1,520
New Homes Build	3,313	1,479	7,310	1,730
TOTAL HRA	**4,368**	**2,400**	**8,331**	**3,250**

*Existing Schemes on Rolling Programmes

11.20 The Council will continue its investment in its Housing Stock (estimated at £3.5 million over the next 3 years). HRA decent homes has been realigned with the current requirement of the Housing Stock. Until the data from the Stock condition Survey is inputted and extrapolated to inform a new detailed capital program to maintain and improve the current standard of the Council housing stock.

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

11.22 New Capital bids received from service managers have been reviewed by senior officers and are listed in Table 17

Table 17 – Capital Programme 2018/19 to 2020/21 – New Schemes

Description	**2018/19** **£'000**	**2019/20** **£'000**	**2020/21** **£'000**
Asset Development Program	4,429	6,042	5,000
Open Space Incursions	25	-	-
Cemeteries Infrastructure	100	-	-
Parks Infrastructure	100	-	-
Azure Optimisations	50	-	-
Unified Communications	100	-	-
TOTAL NEW SCHEMES	**6,804**	**6,042**	**5,000**

11.21 Assuming all of the New Schemes are approved, the total investment for the three year programme will be £44 million and the funding sources are outlined in the Table 18

Table 18 - Capital Programme 2017/18 to 2020/21 – Funding Sources

	2017/18 **Estimated** **£'000**	**2018/19** **£'000**	**2019/20** **£'000**	**2020/21** **£'000**
General Fund	3,673	14,087	10,541	5,380
HRA	4,368	2,400	8,331	3,250
Total capital expenditure	**8,211**	**16,487**	**18,872**	**8,630**
Financed by:				
Capital Receipts (GF)	(3,587)	(864)	(330)	(130)
Capital Receipts (HRA)	(994)	(444)	(2,192)	(519)
Revenue contributions (HRA)	(1,511)	(1,035)	(5,118)	(1,211)
Government grants	(250)	(250)	(250)	(250)
S106 agreements (HRA)	(815)	-	-	-
HRA business plan	(1,055)	(921)	(1,021)	(1,520)
Borrowing	-	(12,973)	(9,961)	(5,000)
Total Financing	**(8,211)**	**(16,487)**	**(18,872)**	**(8,630)**

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 Strategy

12.1 This report presents the Treasury Management Strategy for 2018/19. It covers two main areas:

a) Capital issues
- the Council's capital plans and the prudential indicators
- the minimum revenue provision (MRP) policy

b) The Council investment policy and strategy

12.2 CIPFA defines treasury management as:
"The management of the local authority's borrowing, 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 management strategy (this document)
b) A mid-year review of treasury activity
c) A year-end report on treasury activity

<u>Treasury management consultants</u>

12.4 The Council uses Link Asset Services (LAS) 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 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.

Capital Prudential Indicators 2018/19 – 2020/21

12.6 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the following prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

12.7 <u>Capital Expenditure</u>. This indicator is a summary of the Council's capital expenditure plans and how they will be financed. This is covered in Table 18.

12.8 The Council's borrowing need (the Capital Financing Requirement).
The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.

12.9 There is a steady increase in the CFR up to 2020/21, which is due to the requirement for new internal and external borrowing to fund the Town Hall project, and the provision of finance to other projects. The increase is partly offset as funds are set aside for the repayment of debt. Members are requested to approve the CFR projections below:

Table 19 – Capital Financing Requirement Projections

	2017/18 Estimated Outturn £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
General Fund	11,166	24,005	33,569	37,924
HRA	61,598	61,098	60,598	60,098
Total CFR	**72,764**	**85,103**	**94,167**	**98,022**
New borrowing	0	12,973	9,961	5,000
Debt repayment provision	(500)	(635)	(897)	(1,145)
Increase/(decrease) in CFR	**(500)**	**12,339**	**9,064**	**3,855**

Minimum Revenue Provision Policy

12.9 The Council is required by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to calculate a level a provision for the repayment of debt liability that it considers to be prudent, known as the Minimum Revenue Provision (MRP). The regulations also require the full Council to approve an MRP policy in advance of each financial year. These regulations and supplementary guidance recommend four options for the calculation of the provision.

12.10 The Council has recently commissioned LAS to carry out a review of its MRP policy. Subject to the outcome of this review, the Council is recommended to approve the continuation of the following MRP policy:

- for capital expenditure incurred before 1 April 2008, or for any new capital expenditure incurred in the future up to the limit of the Council's supported borrowing, minimum revenue provision will be provided for in accordance with existing practice outlined in the pre-2008 regulations (option 1), which provides for an approximate 4% reduction in the borrowing need each year

- for all unsupported borrowing 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.

Any revisions to this policy resulting from the MRP review will be taken to Council for approval.

12.11 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.

Borrowing Strategy and Prudential Indicators 2018-19 to 2020-21

Current borrowing position

12.12 The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 20 – Current Borrowing Position

	2016/17 Actual £'000	2017/18 Estimate Outturn £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
External borrowing:					
At 1 April	66,690	64,690	61,690	71,893	81,854
Change in year	(2,000)	(3,000)	10,203	9,961	5,000
At 31 March	**64,690**	**61,690**	**71,893**	**81,854**	**86,854**
CFR	73,257	72,764	85,103	94,167	98,022
Under borrowing	**(8,567)**	**(11,074)**	**(13,210)**	**(12,313)**	**(11,168)**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes. The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future.

12.13 Operational Boundary for External Debt. This is the limit beyond which external debt would not normally be expected to rise. It is proposed that this set at the CFR plus an allowance of £5m for any short-term borrowing needs.

Table 21 - Operational boundary for external debt

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate

	£'000	£'000	£'000	£'000
CFR	72,764	85,103	94,167	98,022
Short term borrowing needs	2,000	5,000	5,000	5,000
Operational boundary	**74,764**	**90,103**	**99,167**	**103,022**

12.14 Authorised Limit for External Debt. This is the maximum level of borrowing that the Council is permitted to hold. It is proposed that this be aligned set at the operational boundary plus £3m for any future long-term liabilities.

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Table 22 - Authorised limit for external debt

	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Operational boundary	74,764	90,103	99,167	103,022
Long term liabilities	3,000	3,000	3,000	3,000
Authorised limit	**77,764**	**93,103**	**102,167**	**106,022**

Debt Rescheduling

12.15 It is not envisaged that any debt rescheduling will take place during 2018/19.

Policy on borrowing in advance of need

12.17 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.

Interest rate forecasts

12.18 LAS's interest rate forecasts are set out below.

Table 23 – LAS's Base Rates & PWLB Borrowing Rates

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year.

Affordability Prudential Indicators

12.19 Ratio of Financing Costs to Net Revenue Stream.

These provide an indication of the impact of the Council's capital investment plans on the Council's overall finances. They measure the cost of borrowing, net of investment income, against the net revenue stream, i.e. the Council's funding from business rates, council tax and any residual general grant funding from central government. They also show the income from new schemes financed from borrowing and the ratio taking this income into account.

Table 24 - Ratio of General Fund Financing Costs to Net Revenue Stream

General Fund	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Financing costs (£000)	(3)	52	102	547	710
Net Revenue Stream (£000)	10,283	9,646	8,361	7,955	7,814
Ratio	-0.03%	0.54%	1.23%	6.88%	9.08%
Income from new schemes			1,288	1,484	1,367
Ratio including new income			1.06%	5.80%	7.73%

12.20 The following table is the comparative indicator for the HRA, measuring the financing costs against the income stream from dwelling rents.

Table 25 - Ratio of HRA Financing Costs to Net Revenue Stream

HRA	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Financing costs (£000)	3,500	2,397	2,412	2,412	2,412
Dwelling rents (000)	11,993	11,878	11,746	11,629	11,629
Ratio	29.18%	20.18%	20.53%	20.74%	20.74%

Treasury prudential Indicators for debt

12.21 The following debt related treasury activity limits are intended to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.

12.22 Upper limits on fixed and variable interest rate exposures.

Table 26 - Upper limits on fixed and variable interest rate exposures

	2018/19	2019/20	2020/21
Fixed interest rate exposures	100%	100%	100%
Variable interest rate exposures	20%	20%	20%

12.23 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 27 - 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%

Investment Strategy

Investment policy

12.24 The Council's investment policy has regard to The Ministry for Housing, Communities and Local Government Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017. The primary investment priorities of the Council are:

a) the security of its capital
b) liquidity of its portfolio, i.e. keeping funds readily available for expenditure when needed.

Durational limits and creditworthiness policy

12.25 To determine the duration of investments with bank and building societies, the Council will use the creditworthiness service provided by Link Asset Services. This service employs a modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard & Poor, supplemented by other information. The model indicates the relative creditworthiness of counterparties and recommends a maximum duration for investments with them. The Council will follow these recommended durations, up to a maximum duration of one year. The Link Asset Services model does not apply to local authorities, with which the maximum duration for investments will also be one year.

Investment Strategy

12.26 The Council will continue its approach of investing the majority of its funds in parcels of £1-£2m with UK banks and building societies on a rolling 6-12 month basis. This provides liquity of funds and access to higher interest rates that shorter term investments.

Investment instruments and limits

12.27 Table 28 summarises the investment instruments available to the Council during 2018/19, and the respective credit rating, value and durational limits that will apply:-

Table 28 – Proposed Investment Instruments

Instrument	Minimum short term credit rating	Minimum long term credit rating	Maximum value of investment	Maximum duration of investment
Term Deposits with UK Local Authorities	N/a	N/a	£5m per local authority	1 year
Term deposits or notice accounts with UK banks	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per bank	1 year
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	1 year
Term deposits with UK Building Societies	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per Building Society	1 year
Debt Management Account Deposit Facility (DMADF)	N/a	N/a	Unlimited	6 months (DMADF imposed time limit)
Ultra Short/Short Dated Bond Funds	1.25	1.25		
Treasury Bills issued by the UK Government	N/a	N/a	Unlimited	1 year
Money Market Funds CNAV	N/a	AAA	£5m per fund	Liquid
Money Market Funds LVNAV	N/a	AAA	£5m per fund	Liquid
Money Market Funds VNAV	N/a	AAA	£5m per fund	Liquid
Certificates of Deposit issued by UK institutions	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per institution	1 year

12.28 All investments will be transacted in UK Sterling, and all investments will be with UK financial institutions only.

12.29 The monetary limits included in the investment strategy does not apply to balances on our suite of current accounts provided by Lloyds Bank plc. As a result, we may operate from time to time with monies held with Lloyds Bank marginally above the investment limits shown because of these current account balances. The Council endeavours to keep balances of no more than £2m on its current accounts.

Ultra Short/Short-Dated Bond Funds

12.30 These are pooled investment vehicles where risk is diversified because of the spread of investments. They are a potential new investment instrument for the Council, and a selection process will be undertaken should to ensure that the most suitable fund is chosen, if officers consider that it is worthwhile pursuing them.

Investment returns expectations

12.31 The Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

12.32 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2017/18 0.40%
- 2018/19 0.60%
- 2019/20 0.90%
- 2020/21 1.25%

Specified and not specified investments

12.33 Specified investments are high security, high liquidity investments in sterling with high credit quality and a maturity of no more than one year. All of the instruments identified in Table 28 meet the definition of specified instruments.

12.34 Non-specified investments are any other type of investments, one of their characteristics being that their duration is over one year, which is in excess of the Council's maximum duration. The Council will therefore not use non-specified investments during 2018/19.

MiFID II (Markets in Financial Instruments Directive II)

12.35 These are European Union rules regulating the provision of financial instruments and financial advisory services to clients of financial services companies, that came into effect on 3 January 2018. Under the previous rules, local authorities were classified as professional clients. Under MiFID II, local authorities are classified by default as retail clients. In the case of Brentwood, this reclassification applied to its relationship with Link Asset Services and the broker firms that the Council uses to arrange fixed term deposits. Along with most of the local authority sector, the Council has chosen to opt-up to elective professional status.

12.36 Fixed term deposits are not classified as designated investment business under MiFID II, and therefore the MiFID II obligations with regards to classifications do not apply to the existing relationship between the Council and the banks and building societies with which it invests. If the Council chooses to use other instruments in 2018/19 that are within the scope of MiFID II, it would need to opt-up to professional status in order to access these instruments.

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 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 £1.036 million have been anticipated for 2018/19 to ensure that the Council has a balanced budget position.

13.4 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.

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

13.6 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 2018/19. 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 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 2018/19

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
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16.1 The financial implications are set out in the report.

Legal Implications
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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 – Earmarked Reserves

Appendix B – Fees and Charges Schedule

Appendix C – HRA Business Plan

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