20th November 2018

Policy, Projects & Resources Committee

2018/19 Medium Term Financial Plan Mid-Year Review

Report of:	*Jacqueline Van Mellaerts – Interim Chief Finance Officer*
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 7.**

2.2 **Agree the current Capital Programme position as shown in Table 8.**

2.3 **Agree the current HRA position as shown in Table 10.**

2.4 **To Note the Treasury Management Activity and agree the Revised Minimum Revenue Provision (MRP) Policy.**

3. Introduction & Background

3.1 On 6th March 2018 at Ordinary Council, the Medium-Term Financial Plan was approved and the budgets for General Fund, HRA and Capital Programme were set for 2018/19 – 2020/21.

3.2 On the 19th June 2018 at Policy, Project and Resources Committee revised working balance positions were reported following the 2017/18 outturn, and the capital programme was amended for carried forwards/slippage to specific projects.

4. General Fund

4.1 The General Fund Revenue position as approved on 6th March 2018 and the revised carry forward working balances as at 19th June 2018 are outlined in Table 1.

Table 1 – General Fund Revenue Revised Position as at 6 March 2018 with revised carry forward working balances.

	2017/18 Actual £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Total General Fund Net Expenditure	9,747	8,940	8,864	8,638
Total Funding	(9,660)	(8,940)	(8,479)	(8,339)
Funding Gap	**87**	**0**	**385**	**299**
Working Balance b/fwd	**3,742**	**3,305**	**3,305**	**2,920**
Less: - Funding Gap	87	0	385	299
Earmarked for WHW	350	0	0	0
Working Balance c/fwd	**3,305**	**3,305**	**2,920**	**2,621**

4.2 This position is an indication of what the Council has achieved since March 2016, when original 2018/19 closing working balances were predicated to be negative balances of £303k, compared to the above table that is now showing just over £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 early December 2018, the funding assumptions are as per those reported at the budget setting meeting on 6th March 2018. 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.

4.6 The RSG allocations previously announced at 2016/17 are unchanged. Brentwood from 2018/19 no longer receives the Revenue Support Grant, however in making the reductions to RSG, the top up/tariff adjustments hit high tax base/high rate authorities. For 2018/19 the settlement announcement removed the negative RSG from 2018/19 allocation but left the 2019/20 allocation ongoing, following a consultation.

4.7 A technical consultation took place in the Summer this year. Its scope included 'negative RSG' and the results will inform the 2019/20 Government Finance Settlement in December 2018, ensuring there is a fair and affordable option for dealing with negative RSG.

4.8 Pending the outcome of the consultation, currently it is assumed that for 2019/20 onwards there is negative RSG of £370k.

Business Rate Retention

4.9 The Council is currently part of the Essex Wide Pool for Business Rates, 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 was budgeted into the base for 2018/19 due to the uncertainty of the surplus that could be received. Currently projections, estimate £140k. Table 2 highlights the performance of being in the pool.

Table 2 – Business Rate Pool Performance

2015/16 Actual £'000	2016/17 Actual £'000	2017/18 Actual £'000	2018/19 Forecast £'000
0	163	310	140

4.10 On 18th September 2018, The Council agreed to be part of a pilot “pool” submitted to DCLG by Essex County Council, for 75% Business Rates Retention in 2019/20, The outcome of the pilot bid is 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.

4.11 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 2019/20 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.

4.12 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 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.

2020/21 75% Business Rates Retention

4.13 The Business Rate Retention Scheme (BRR) commenced in 2013/14 and has increasingly been regarded as the core source of direct Government funding within its Settlement Funding Assessment (SFA). The BRR system is intended to see a simplification of council funding arrangements and to incentivise councils to encourage economic growth in their areas. In return, this would improve the business rates collectable and therefore the funding retained locally through the funding arrangements

4.14 The current BRR scheme (Business Rate Retention), allows only 50% of business rate income to be retained by local government. In the 2018/19 Finance Settlement, it was announced to change this retention to 75% from April 2020.

4.15 Currently it is too early to estimate the impact on the 2020/21 budget regarding the move to 75% Business Rates Retention. The move to 75% Business Rates Retention is one of three strands of funding reforms, the other two strands being the Fair Funding Review and the resetting of the

Business Rates Baseline. These strands of works are ongoing, and much is still unknown about the new system that will operate from April 2020, including the transitional arrangements from the current system to the new system. The other unknown factor is next year's Spending Review, which will determine the overall funding to be allocated to local government.

New Homes Bonus Grant

4.16 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.

4.17 However, changes were announced in the 2017/18 Provisional Local Government settlement, which are that the number of years that the scheme will be based upon reduced from 6 years in 2016/17 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 3 – New Homes Bonus Grant Profile

	11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000	15/16 £'000	16/17 £'000	17/18 £'000	18/19 £'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**

Government Funding

4.18 A table summarising the Medium-Term Financial Plan's Expected Government funding is shown in Table 4.

4.19 Figures for 2021/22 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 4 – Government Funding Expected

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Indicative £'000
Revenue Support Grant	Nil	Nil	Nil	Nil
Tariff/Top-Up Adjustment	Nil	(370)	(370)	(370)
Business Rates Retention	2,200	2,200	2,200	2,200
New Homes Bonus	410	170	3	0
TOTAL	**2,610**	**2,000**	**1,833**	**1,830**

4.20 Since 2015/16 Government Funding including Business Rates Retention has reduced by £2.586m which is a clear indication of why the Council continues to face the present Funding Gap. Funding in 2015/16 totalled £4.586m.

Planning Assumptions for 2019/20 to 2021/22 Pay Awards (Inflation)

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

Current in Year Pressures

4.22 The current pressures for the Medium-Term Financial Plan are outlined in Table 5.

4.23 These in year pressures are taken from the forecasted position as at 31st October 2018 of budgeted monitoring.

Table 5 – Current Pressures

Description	2018/19 Estimated Outturn £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000
Operational Service Review	118	0	0	0
Additional Lease Income	95	95	0	0
Premises Related Expenditure	22	22	22	22
Transport Related Expenditure	56	0	0	0
Interest Payable	112	112	112	112
Grants & Reimbursement	83	83	83	83
Parking Income	175	150	125	100
Fees & Charges	108	80	60	40
Council Tax Sharing Agreement	0	20	40	40
TOTAL	**769**	**562**	**442**	**397**

4.24 Operational Service Review: saving £350k, work has progressed in making savings, however as the review was implemented half way through this financial year, not all the savings will be achieved.

4.25 Additional Lease Income: the delay to the legalities of this has resulted in no additional income expected for 2018/19 or the following financial year.

4.26 Premises Related Expenditure: Increase in utility costs for Council Assets.

4.27 Transport Related Expenditure: due to the service review being implemented halfway through the year, new vehicles have not been procured. Therefore, maintenance to existing fleet has increased for this year.

4.28 Grants & Reimbursement: Amount received per tonne on most recycling has dramatically reduced.

4.29 Income Fees & Charges: This takes account of Golf Course not expecting to achieve its target due to an exceptionally dry summer, cemeteries and Community Alarm Income decreasing due to the loss of funds from ECC. Officers are looking into ideas to generate more income in these areas in order to achieve future targets.

4.30 Parking Income: Work on improving the MSCP has resulted in the closure of floors, in addition Hunters & Friars car park was not returned to the Council at the beginning of the financial year from Crossrail as assumed, so charging on these car parks have been delayed.

4.31 Council Tax Sharing Agreement: Essex County Council to decrease the share in the Council Tax arrangement by 2% and then a following 2%. This reduction applies to all authorities.

Current in Year Funding/anticipated savings

4.32 The current increase in funding and anticipated savings are outlined in Table 6

Table 6 – Increase in Funding/Anticipated Savings

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Increase in Council Tax Base (assumes no increase in Council Tax)	0	(20)	(20)	(20)
Pension Deficit Funding	(182)	(182)	(182)	(182)
New Ways of Working	(72)	(72)	(72)	(72)
Interest Receivable	(119)	(119)	(119)	(119)
Minimum Revenue Provision (MRP)	(47)	(141)	(230)	(184)
Commercial Income	(62)	-	-	-
NNDR Pooling Income	(140)	-	-	-
TOTAL	**(622)**	**(534)**	**(623)**	**(577)**

4.33 Council Tax Base: It is estimated that the Council Tax base will increase by around 108 Band D equivalent properties above what was forecast for 2018/19. The impact of this will be an increase in income of around £20k to that already budgeted for in the MTFP report agreed on 6 March 2018., Future years Tax Base are then forecasted from this position.

4.34 Pension Deficit Funding: The organisation has naturally decreased in size, with the successful shared service and managed services, and the council's pension strain has decreased to reflect this.

4.35 New Ways of Working Initiatives: moving out the Town Hall has encouraged officers to think alternatively to how they work, this has resulted in cost savings, on postage, printing & stationary and computing.

4.36 Interest Receivable: Return on Investments and Loans to SAIL.

4.37 MRP: Revision of the Minimum Revenue Provision calculation has resulted in a saving against the General fund. More details can be found in Section 7 of this report.
To note: MRP for future years will change depending on the future capital program, once growth bids are reviewed. Therefore, MRP and its impact on the General Fund budget will be revisited as part of budget setting and reported to Policy, Projects and Resources.

4.38 Commercial Income**:** Success of setting up Seven Arches Investment Limited as resulted in the Council being able to provide services for SAIL and charge competitive market rates for this work.

4.39 NNDR Pooling Income: The Council is currently part of the Essex Wide Pool for Business Rates. No additional income was budgeted for into the base of 2018/19 due to the uncertainty of the surplus that could be received. This is reflected by the low growth within business rates. One reason behind the decline in growth is due to offices being converted into residential properties. Therefore, it is not proposed to budget for future NNDR pooling income. However current projections of the pool are estimated for 2018/19.

4.40 VAT*:* Currently the Council has submitted a Sports claim to HMRC of £541,657. This is expected to be settled and after costs the Council could potentially receive £430k. Timings however are unknown, when the claim is settled the receipt will be earmarked to the Council's Funding Volatility reserve due the Council facing ongoing funding pressures.

Summary on General Fund

4.41 Table 7 shows the impact on the original funding position together with the updated information identified through the mid-year budget review process.

Table 7 – Revised General Fund Medium Term Financial Position

	2018/19 Estimated Outturn £'000	**2019/20 Budget £'000**	**2020/21 Budget £'000**	**2021/22 Budget £'000**
Total Net Forecast Spend	8,940	8,864	8,638	8,638
Total Funding	(8,940)	(8,479)	(8,339)	(8,339)
Original Baseline Funding Gap	**0**	**385**	**299**	**299**
Current Pressures	769	562	442	397
Funding/Anticipated Savings	(622)	(534)	(623)	(577)
Total Funding Gap	**147**	**413**	**118**	**119**
Working Balance b/fwd	**3,305**	**3,158**	**2,745**	**2,627**
Less: Total Funding Gap	147	413	118	119
Working Balance c/fwd	**3,158**	**2,745**	**2,627**	**2,508**

4.42 Table 7 identifies a potential funding gap of around £650k 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 bought to future Policy, Projects and Resources Committee.

4.43 The Council will have to use working balances in order to bridge this funding gap. Based on the current projections the Council will remain within the minimum reserve level of £2.2m by 2021/22.

Working Balances and Reserves

4.44 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 2019/20. Due to the size of the gap it is likely savings will continue to be developed throughout 2019/20 to reduce the draw down from working balances.

4.45 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 2018 was £4.9m and a full list can be found in the Statement of Accounts 2017/18. The estimated position for these reserves as at 31st March 2018 are:

- Organisational Transformation - £817k
- Earmarked Specific Grants - £1.551m
- Funding Reserves - £801k
- Service Area Reserves - £627k
- Trading Account Reserves - £14k

5. Capital Programme

5.1 The capital programme was agreed on 6th March 2018. This was subsequently updated with carry forwards from 2017/18 outturn, which were agreed on 19th June 2018.

5.2 The revised capital programme including the changes above is shown in Table 8

Table 8 – Revised Capital Programme

Description	2018/19 Budget £'000	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000
Town Hall Remodelling	5,205	5,205	3,919	-
Asset Development program	919	100	6,042	5,000
Memorial Wall	100	100	-	-
Vehicle & Plant Replacement Programme	791	300	175	-
King Edward Road Development	500	0	-	-
Disabled Facilities Grant	250	250	250	250
Warley Playing Fields – Sports Pavilion	170	0	-	-
Play Area Refurbishments	151	155	-	-
Warley Park – S106	125	125		
Multi Storey Car Park	1,900	1,750	-	-
ICT Services	250	250	125	100
Car Park Improvements	10	10	-	-
Borrowing to SAIL	30,000	6,000	-	-
Parks Infrastructure Improvements	125	125	-	-
Cemetery Infrastructure Improvements	191	120	-	-
Environment – incl incursion defences	49	49	-	-
Equipment Purchases	41	25	-	-
Renaissance Group	39	39	-	-
Cemetery Headstones	35	17	-	-
Home Repair Assistance Grant	30	5	30	30
Irrigation to Golf Course	29	29	-	-
Highways Match Funding	0	100	-	-
CCTV System Upgrade	16	16	-	-
TOTAL GENERAL FUND	**40,926**	**14,770**	**10,541**	**5,380**
HRA Decent Homes	3,115	2,306	1,021	1,520
HRA Affordable Housing	2,832	2,832	7,310	1,730
HRA Parking Spaces	25	0	-	-
TOTAL HRA	**5,972**	**5,138**	**8,331**	**3,250**
TOTAL CAPITAL PROGRAMME	**46,898**	**19,908**	**18,872**	**8,630**

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

5.4 As the Town Hall development is well underway, it is possible that the budget for 2019/20 may need to be brought forward into 2018/19. Cashflows and forecasts are currently being worked on by officers and external project managers to determine whether the budgeted funds need to be released early, as the project remains on time and the majority of work should be completed by March 2018.

5.5 The ADP (Asset Development Program) is regularly reported to PP&R. Based on the current program, the ADP budget now needs re-profiling to meet the needs of the program.

5.6 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 2019/20-2021/22.

Capital Sources of Funding

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

Table 9 – Capital Sources of Funding

	2018/19 Estimate Outturn £'000	**2019/20 Budget £'000**	**2020/21 Budget £'000**
General Fund	14,770	10,541	5,555
HRA	5,138	8,331	3,250
Total capital expenditure	**19,908**	**18,872**	**8,630**
Financed by:			
Capital Receipts (GF)	(3,392)	(330)	(130)
Capital Receipts (HRA)	(850)	(2,193)	(519)
Revenue contributions (HRA)	(1,982)	(5,117)	(1,211)
Government grants	(250)	(250)	(250)
S106 agreements (GF)	(260)	0	0
HRA business plan	(2,306)	(1,021)	(1,520)
Borrowing (Internal & External)	(10,868)	(9,961)	(5,000)
Total Financing	**(19,908)**	**(18,872)**	**(8,630)**

5.8 Capital receipts Reserve as at 31st March 2018 was £3.392m for General Fund and £3.320m for HRA. With the current capital programme, the council will see a reduction in capital receipts, which would lead to borrowing for any future schemes.

6. Housing Revenue Account

6.1 On 6th March 2018 at Ordinary Council, The Housing Revenue Account was set with a 2018/19 surplus of £116k.

6.2 On the 19th June 2018, Policy, Finance and Resources Committee reported the 2017/18 Housing Revenue Account outturn as a surplus of £494k. This has led to carried forward working balance of £2.041m.

6.3 The Revised position for the Housing Revenue Account is shown in Table 10.

Table 10 – Housing Revenue Account Position

	2018/19 Revised £'000	2019/20 Estimated £'000	2020/21 Estimated £'000	2021/22 Estimated £'000
Total Housing Service Expenditure	8,568	8,543	8,710	8,903
Total Housing Service Income	(13,031)	(12,966)	(13,504)	(13,773)
Non-Service Costs	4,454	7,594	3,707	3,917
Appropriations	0	(2,877)	1,000	500
(Surplus)/Deficit for HRA	(9)	294	(87)	(453)
Working Balance b/fwd	2,041	2,050	1,756	1,843
(Surplus)/Deficit for HRA	(9)	294	(87)	(453)
Working Balance c/fwd	2,050	1,756	1,843	2,296

6.4 Overall the Housing Revenue Account expected to change from the Original budgeted surplus position for 2018/19 to small surplus position.

6.5 Current Pressures include:

- Rise in premises costs, including electricity, gas, insurance and Council Tax totalling £83k.
- Increase to Software licences this includes the purchases of additional software. In addition, inflation on current costs are higher than the budgeted 2%.
- Increase costs to sheltered security to ensure compliance £27k.

- Additional Costs of procuring a new Repairs & Maintenance contract of £35k to begin in June 2019. The cost of this contract will be fed into the budget, once the procurement concludes in December 2018.
- Increase to Bad debt of £20k as arrears increase.
- HRA income £65k, loss of Supporting People Grant and long-term voids and right to buy factor decrease income collectable.

6.6 Current Savings include:

- Vacancy Factor £79k, vacancies within Caretaking and Sheltered Schemes are being trialled to determine the structure required to deliver services to tenants
- Interest and Debt management charges £73k, transfer of shops to the General Fund also transfers the PWLB debt that finances these shops. Therefore, interest payable is due by the General Fund.
- Payments to the Pension Fund £100k, with current vacancies and in line with 2017/18 actual, pension strain on the HRA has decreased.

6.7 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%.

6.8 For 2019/20 the main reason for the deficit is due to the increase in revenue contribution to the development of affordable housing in the capital program. Currently the HRA Business plan assumes that the HRA does not need to borrow to fund capital schemes.

6.9 On 29th October, the Budget announcement confirmed that the Housing Revenue Account borrowing cap has been abolished completely with immediate effect. As a result, local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

6.10 As the HRA Business Plan is developed, the removal of the borrowing cap will be considered when reviewing the capital program needs for the HRA and for the development of Affordable Housing in the Borough. This will be reported back to the next Policy, Projects and Resources Committee.

7. Treasury Management Update 2018/19 and Minimum Revenue Provision Policy Update

7.1 This section of the report provides an update on treasury management and is a follow-up to two previous reports: -

a) Ordinary Council 27 June. This report proposed the total £30m loan draw down facility to Seven Arches Investments Ltd (SAIL) and set out the changes required to the capital and treasury prudential indicators

b) Policy, Projects & Resources Committee 18 September. This report gave an update on investment and borrowing activity.

Capital Programme and Capital Financing

7.2 This is covered in section 5 of this report.

Borrowing

7.3 The Council currently has external debt of approximately £61.0m represented by £59m HRA borrowings and £2m historic general fund borrowing. There are no plans to undertake any rescheduling of this debt during 2018/19.

7.4 The capital programme over the three years to 31 March 2022 assumes an external borrowing requirement of approximately £39.0m, which would increase total external borrowing to £100m. Most of this new borrowing is to fund the Council's lending to SAIL.

7.5 Ordinary Council on 27 June approved the changes resulting from this additional borrowing to the following prudential indicators:

a) the Capital Financing Requirement (the Council's underlying need to borrow for capital purposes)

b) the Operational Boundary (the amount which borrowing would not normally be expected to exceed)

c) the Authorised Limit (the maximum amount that the Council is permitted to borrow).

The revised amounts for 2018/19 are: -

- Capital Financing Requirement £109.526m
- Operational Boundary £114,526m
- Authorised Limit £117.526m

7.6 The options for sourcing this new borrowing are: -

- Public Works Loans Board
- Other local authorities
- Other market lenders (such as the UK Municipal Bonds Agency)

7.7 The Interim Chief Finance Officer is developing a borrowing strategy with input from Link Asset Services, the Council's treasury advisors. This strategy will cover borrowing sources, the timing of the borrowing and the mix of loans.

Minimum Revenue Provision Policy

Background

7.8 The Council is required by the Capital Finance and Accounting Regulations 2008 to determine for each financial year a level a provision for the repayment of debt liability that it considers to be prudent. This is known as the Minimum Revenue Provision (MRP).

7.9 The Council's MRP policy for 2018/19 was approved at Council on 6 March 2018 and is as follows:

<u>Current Minimum Revenue Provision Policy 2018/19</u>

1. For capital expenditure incurred before 1 April 2008, minimum revenue provision will be provided for in accordance with existing practice outlined in the 2003 Capital Financing Regulations, which provides for an approximate 4% reduction in the borrowing need each year.

2. For all unsupported borrowing from 1 April 2008, MRP will be based on the estimated life of the assets, which provides for a reduction in the borrowing need over the assets' lives.

7.10 The Council has commissioned its treasury advisors, Link Asset Services, to carry out a review of the Council's MRP policy. The purpose was to identify any scope to vary the MRP in order to ease the current pressure on the revenue budget, whilst ensuring that the provision remains prudent and compliant with statutory guidance.

7.11 As a result of the review, Link Asset Services have recommended that the Council approves the following revised MRP policy to be applied from 2018/19.

Reasons for the change

7.12 Debt Liability pre-1 April 2008

The Council's historic, pre-1 April 2008 debt liability for MRP purposes is £3.157m. The Council currently charges 4% on this liability on a reducing balance basis. The draw back to this method is that it will take in excess of 100 years to fully provide for the debt liability, thereby creating a burden for future generations of Council Tax payers.

7.13 Applying a 2% charge on a straight-line basis would have the effect of reducing the debt liability to a fixed life of 50 years. The new method is a fairer and more prudent approach than the current method, as it reduces the burden on future generation and introduces a more certain period for spreading the cost of this debt liability.

7.14 Debt Liability 1 April 2008 onwards

The Council's debt liability from 1 April 2008 stood at £4.389m at the start of the current financial year. This includes £3.256m debt liability in respect of the shops transferred from the HRA to the General Fund in 2017. Unlike the pre-1 April 2008 debt liability, this amount is subject to increase in the future if new borrowing is taken out.

7.15 The MHCLG guidance states that the asset life method, can be applied over the lives of the assets either on a straight- line basis or by using the annuity method. The annuity method produces a lower charge in the earlier years and a higher charge in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. It also provides a fairer charge than equal instalments as it takes account of the time value of money.

Financial Impact

7.16 Debt Liability 1 April 2008

Adopting the straight-line method would produce an annual MRP charge over 50 years of £0.063m. The following table compares the charges resulting from the revised method against the charges using the current method over the next five years:

Year	Current method	Revised method	Difference
	£000	£000	£000
2018/19	126	63	-63
2019/20	116	63	-53
2020/21	112	63	-49
2021/22	107	63	-44
2022/23	103	63	-40

7.17 The new approach would produce a lower MRP charge up to 2035/36 and a higher MRP charge up to 2067/68.

7.18 Over the 50-year period the overall cost to the General Fund would be £0.410m higher in cash terms, but £0.167m lower in real terms i.e. when the time value of money is taken into account.

7.19 Debt Liability 1 April 2008 onwards

Adopting the annuity method over an asset life of 70 years would produce an MRP charge for 2018/19 of £0.033m, gradually rising over the 70-year period. The following table compares the charges resulting from the annuity method against the charges using the current method over the next five years:

Year	Current method	Revised method	Difference
	£000	£000	£000
2018/19	73	33	-40
2019/20	73	34	-39
2020/21	73	35	-38
2021/22	73	35	-38
2022/23	73	35	-38

7.20 The new approach would produce a lower MRP charge up to 2035/36 and a higher MRP charge up to 2067/68. The charge to the General Fund is the same over the 70-year period in cash terms, but £0.332m lower in real terms.

7.21 Combined impact and use of MRP overprovision

The following table shows the combined impact of the above changes. The would be an annual MRP charge of £0 096m, rising to £0.098m in 2022/23.

Year	Current methods	Revised methods	Difference
	£000	£000	£000
2018/19	199	96	-103
2019/20	189	96	-93
2020/21	185	96	-89
2021/22	180	96	-84
2022/23	176	98	-78

7.22 The Council's external auditors in 2010/11 determined that the Council overprovided MRP between 2003/04 and 2010/11. At the request of the auditors, the Council agreed to treat the overprovision as voluntary set-aside, i.e. an additional provision over and above what was deemed prudent at the time. The amount of the overprovision was £1.269m, and since 2010/11 the Council has used £0.94m of this amount to offset MRP.

This leaves a residual overprovision of £0.345m that the Council can use to offset future MRP.

7.23 The MRP charges between 2018/19 and 2020-21, totalling £0.288m, can be offset against the £0.345m overprovision, meaning that there will no actual charge to the General Fund in those years. There would be a £0.039m charge to the General Fund in 2021/22, and a full charge of £0.98m in 2022/23.

Debt liability pre-1 April 2008 - residual liability

7.20 A feature of the method for calculating the MRP on the debt liability pre-1 April 2008 was the introduction of an adjustment know as Adjustment A. This was introduced as part of the revised system of capital controls that come into effect from 1 April 2004. It represents the difference between the Capital Financing Requirement balance under the new system and the pre-April 2004 credit ceiling. Its purpose was to ensure that Authorities were no worse off under the new system than under the previous credit ceiling.

7.21 The Council's Adjustment A is £4.619m. Its significance is that the Council is only required to repay the credit ceiling amount and there is no requirement to provide for the difference, i.e. the Adjustment A amount. The outcome is that means that the Council will have a residual debt liability of £4.619m at the end of 100+ years if it keeps to the current method, or at the end of 50 years if it switches to the new method.

7.21 The Council could choose to make additional provision for this debt if it wanted to fully clear its debt liability. To provide for this debt over 50 years on a straight-line basis would cost an additional £0.092m per year. It is not considered necessary to make this additional provision at this point in time, but this will be kept under review for future years.

8. Reasons for Recommendation

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

9. Consultation

9.1 None

10. References to Corporate Plan

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

11. Implications

Financial Implications
Name & Title: Jacqueline Van Mellaerts, Interim Chief Finance Officer
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jacqueline.vanmellaerts@brentwood.gov.uk

11.1 The financial implications are set out in the report.

Legal Implications
Name & Title: Daniel Toohey, Head of Legal Services & Monitoring Officer
Tel & Email: 01277 312 860 daniel.toohey@brentwood.gov.uk

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

Other Implications - Risk Management

11.3 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.

12. Background Papers

12.1 Budget Report approved 6 March 2018

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