

Committee(s): Policy Resources and Economic Development	Date: 8 th January 2020
Subject: 2019/20 Budget review and Draft 2020/21 Medium Term Financial Plan	Wards Affected: All
Report of: Jacqueline Vanmellaerts, Director of Corporate Resources	Public
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Summary

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.

The report was due to be reported in November but was postponed due to purdah. It sets out the approval for the proposed budget timetable and guidelines that will be followed to develop the budget for 2020/21 and the financial forecast up to 2022/23. The current draft forecast as outlined in the report is to aid Members in understanding the basis of what is known now, the financial trajectory of the Council and identifying actions that can be taken to address the continuing deficit of resources over expenditure. These actions may involve Members having to take difficult decisions to address the budget gap.

This report also provides the Policy, Resources & Economic Development Committee with an update to the 2019/20 General Fund Revenue budget, Housing Revenue Account and Capital program as well as the Treasury Management Mid-Year Review 2019/20.

At Policy, Resources & Economic Development Committee on 11th September 2019 the General Fund was forecasting a deficit of £267k, revised forecast indicates as at period 8 the general position as £213k deficit.

The Housing Revenue Account also forecast a net operating deficit of £267k as at period 8 this forecast has been revised to £418k.

The Capital Programme had indicated that there was an underspend of £9.593m this has been revised to £11.044m excluding the borrowing to Seven Arches investment Limited.

Recommendation(s)

Members are asked to:

R1. Approve the budget guidelines and assumptions for 2020/21 as set out in Appendix A.

R2. To note the projected outturn forecasts for 2019/20 as set out within Appendix B, Appendix E and Appendix G.

R3. To note the draft 3-year financial forecast as set out in Appendix B for General Fund and Appendix E for Housing Revenue Account.

R4. To note the Treasury Management Activity for the year to date.

Main Report

Introduction and Background

1. On 27th February 2019 at Ordinary Council, the Medium-Term Financial Plan was approved and the budgets for General Fund, HRA and Capital Programme were set for 2019/20 – 2021/22.
2. On the 10th July 2019 at Policy, Resources and Economic Development Committee revised working balance positions were reported following the 2018/19 outturn, and the capital programme was amended for carried forwards/slippage to specific projects.
3. The revised working balances for the General Fund and Housing Revenue Account (HRA) as at 10th July 2019 are outlined in Table 1.

Table 1 – General Fund Revenue projected Working balances.

	2018/19 Actual £'000	2019/20 Projected Outturn £'000	2020/21 Budget £'000	2021/22 Budget £'000
Total General Fund Net Expenditure	9,389	9,206	9,412	9,518
Total Funding	(9,201)	(8,993)	(9,086)	(9,118)
Funding Gap	188	213	326	400
Working Balance b/fwd	3,305	3,117	2,904	2,578
Less: - Funding Gap	188	213	326	400
Working Balance c/fwd	3,117	2,904	2,578	2,178

4. The table above identifies the revised gap between resources and required expenditure. The 2020/21 and 2021/22 are the base budget requirements agreed at Ordinary Council 27 February 2019, the position of these forecasts have changed, and this report highlights what has changed since the last agreed MTFP. The overriding influencing factor in the budget setting process for 2020/21 is, therefore, the need to generate efficiencies and increasing income to meet these gaps.
5. Local government finance continues to experience external pressures and uncertainties as a result of the continuing pressure on public sector spending. This is exacerbated by the absence of reliable forecasting data beyond 2019/20 and by volatility in key income streams
6. Proposed changes to the way the government funds local government (as being covered by the 'Fair Funding Review') are not yet finalised and it is not possible to identify how individual authorities might be affected. It is not certain that the revised arrangements will be put in place for 2020/21. It is increasingly unlikely that there will be a spending review which is necessary to underpin the changed funding arrangements. The most likely scenario for 2020/21 is that the 2019/20 arrangements are rolled forward but how they will be rolled forward is not clear.

Issue, Options and Analysis of Options

Budget Guidelines and Assumptions

7. Attached in Appendix A are the proposed budget guidelines and assumptions for 2020/21 and forecast to 2022/23. The guidelines are used by officers in preparing the draft budgets that will be presented to Committee in February 2020 for approval to go to Council in March 2020. This is detailed within the Budget timetable within the appendices and informs members of deadlines officers adhere when presenting the budget to committee.
8. The guidelines provide for current assumptions within the budget setting process these are:
 - 2% pay increase on staff pay per annum.
 - Holding a central vacancy factor of 4% of employee costs. This encourages management recruiting to vacant positions to generate an efficiency. It is recognised that not every service is in a position to generate this saving on their salary budgets. Therefore, this saving is to be held centrally and vired in year to service departments as and when vacancy savings are realised.
 - Where there are contractual obligations that mean cost will rise by inflation or some other specific factor this has been reflected in the budgets. Inflation has been estimated at 2% this is the average CPI increase.
 - Fees & Charges that are non-statutory to be increased by 2% in line with the average CPI increase for inflation.

General Fund 2019/20 budget update and draft forecast

9. When considering the future budgets, any known pressures and savings identified in year are reflected. Therefore, the proposed forecast outturn must be considered alongside the draft budgets for the MTFP.
10. Attached within Appendix B is a revised projected outturn for 2019/20. The projection is £213k at the end of November 2019. This is a revision to the reported deficit of £267k at PRED committee on 11th September 2019.
11. Appendix C summarises the subjective analysis of the General Fund variance.

12. In summary the financial issue facing the Council is that income is not meeting the expenditure requirement. Overall, within expenditure there is a significant underspend within the establishment, this is offset with the increased costs of project management support required. The decision to not take out planned long term borrowing at PWLB rates, has created a saving within the Council's expenditure. However, this is a short-term fix and the borrowing requirement is still required therefore the financial impact has been delayed into future financial years.
13. To offset the saving made on interest payable within 2019/20 is the reduction in income from rents of the Council Assets. This is predominately due to the delay in letting the residential units at the new Town Hall and not securing full capacity of Commercial tenants for the units available. Officers, as part of budget setting are looking at ways to ensure the Council is maximising its income potential, by reviewing current Fees & Charges to meet the aim they should work towards full cost recovery as well as ensuring the Council's assets are utilised to generate an income to support the Council's functions.

General Fund Forecast

14. Also, within Appendix B is the financial forecast for 2020/21 – 20200/23. The key assumptions used to arrive at the figures are:
 - Rebasing – reducing service expenditure in line with costs incurred to provide the service
 - Realigning – aligning budgets to ensure they are meeting current service provision
 - Inflation – Applying an increase in costs for contractual obligations.
 - Salary – Assumption is that a 2% pay award per annum keeps current salaries in line with cost of living.
 - Pension – Councils pension valuation has been received and from 20/21 the increase in Employers contributions is increasing from 17.1% to 19.2%
 - Fees & Charges – increase non statutory fees and charges by inflation of 2% to ensure cost recovery is maintained
 - Vacancy Factor – recruitment of vacant posts causes a natural saving on employee costs. This is calculated at 4% and will be held centrally and allocated in year as and when vacancy savings materialise.
 - Government Funding is to remain at 2019/20 levels
15. Table 2 quantifies the total increase or decrease applied to the Base Budget's for 2020/21 – 2022/23.

Table 2 – Draft MTFP

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Original Funding Gap	326	400	400
Add:			
Rebasing	(109)	(109)	(109)
Realigning	360	360	360
Inflation	50	51	52
Salary	237	237	237
Pension	237	237	237
Pressures	82	82	82
Vacancy Factor	(301)	(301)	(301)
Savings	(148)	(148)	(148)
Revised Funding Gap	358	607	607
Revised Working Balance c/fwd	2,546	1,939	1,332

16. Anyone of these assumptions are an estimate at a point in time. Assumptions provide a basis on which to plan in a very uncertain funding climate. Currently the Council is in a situation where it is impossible to predict with certainty on the government's policy on Fair Funding Review, the implications of the UK's exit from the EU or any other factors that may affect funding
17. On 5th November 2019, MHCLG sent a letter to all local authorities confirming that, due to the General Election on December 12th, it will not be possible to comply with the 2018 Hudson Review recommendation that the provisional settlement should be received by December 5th.
18. The letter states that the provisional settlement will be a priority for Ministers to consider after the General Election and that MHCLG will take all possible steps to ensure the final settlement aligns with local authority budget setting timetable.
19. Therefore, the Council has assumed the funding based on the provisional settlement technical consultation that was issued October 2019. It is envisaged that this approach should hold few surprises for local authorities, however a change in Government may have an impact on both the speed of publication and the funding provided.

20. The letter did confirm that the following funding arrangements for Homelessness and that the Flexible Homelessness Support Grant and Homelessness Reduction Act New burdens grant are to remain as a minimum at 2019-20 levels. For Brentwood this is **£140k**
21. 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.
22. There is an emerging trend of offices being converted into flats, which results in a loss of business rates yield. As part of the Spending review, government are looking to reset the Business rates baseline and setting up a new business rates retention system. However, this new system is unknown and so for budgeting assumptions the business rate retention is to remain at £1.8m
23. New Homes Bonus Grant in 2020-21, the calculations are based on additional housing stock reported through council tax base statistics published in November. Approximately 277 additional dwellings have been added to the tax base this year. For any new allocations made in 2020-21 the Government will retain the option of adjusting the baseline on 2020-21 to reflect significant additional housing growth and spending limits. For Brentwood this is expected to be a one off additional £176k of funding as no legacy payments are being made in subsequent years on the 20/21 allocations due to the 2020 spending review.
24. Total Government Funding assumed in the Draft MTFP is detailed within Table 3.

Table 3 – Government Funding Expected

	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Indicative £'000
Revenue Support Grant	Nil	Nil	Nil	Nil
Tariff/Top-Up Adjustment	Nil	Nil	Nil	Nil
Business Rates Retention	1,900	1,800	1,800	1,800
New Homes Bonus	678	684	585	508
TOTAL	2,578	2,484	2,308	2,308

Addressing the budget Gap

25. The strategy for developing the budget gap is developed through the budget setting process. It is expected, but not limited to include all or some of these elements.
- Review on further delivery on commercial activity as a whole
 - Looking at service redesign and improvements.
 - Reviewing and rationalising council assets
 - Generating new ideas for delivering efficiencies

Reserves

26. Closing working balances is currently forecast at £2.904m, which is still within the Council's minimum reserve level of £2.2m. Taking this revising forecast and projecting it forward with the current draft MTFP the working balances do go below the recommended levels in 2021.
27. The General Fund balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of working balance should provide reasonable allowance for unquantifiable risks or one-off exceptional items of expenditure that are not covered within existing budgets.
28. While it is deemed the Council has an appropriate level of working balances and earmarked reserves, that could be utilised to fill any gaps in the short term for delivering efficiencies these reserves can only be used until their balance is drawn down.
29. Attached in Appendix D highlights the current forecast on the earmark reserve balances.
30. The reserves are grouped into 5 types of reserves
- **Service** – Monies requested by the service from existing budgeted to be used on specific plans or projects.
 - **Trading** – Trading Accounts are held so that over a period of three financial years the account should balance to zero. Any surplus is taken into account when setting future years fees and charges.
 - **Specific** – Monies that the Council has received that have restricted conditions on how the money can be used.
 - **Funding** – Earmarked specifically to mitigate financial risks to the Council

- **Transformation** – Monies specifically earmarked to fund the Councils transformational activities

31. Based on current forecast, a further £126k is required from reserves for 2019/20 this is to fund the following expenditure:

- £173k for severance payments funded from the Organisational Transformation Reserve
- £60k for the Council's subscription to ASELA funded from the Organisational Transformation Reserve
- £128k to fund the costs of finalising the Joint Venture contract.
- £6k from the Waste management Reserve to fund the high street clear up.
- £2k of S106 monies for works at Hanover House
- £6k from Health & Wellbeing reserve to fund the increase in post delivering service.
- £202k is not required from the Funding Volatility Reserve as previously budgeted for.
- £101k from the Dunton Hill and LDP reserve is not to be utilised in 2019/20 due to slippage of timelines.
- Planning Delivery Grant, £55k balance was left at the end of 2018/19 this balance has been utilised first in funding works for the LDP.

Housing Revenue Account

32. The budget guidelines within Appendix A are applicable to the HRA. A 30-year forecast for the HRA is produced annually. The current version was produced and approved at Ordinary Council 27th February 2019. Appendix E highlights the revised forecast for 2019/20 and the revised 3-year forecast based on current assumptions. A new 30-year business plan will be present to PRED as part of the budget recommendation.

33. A detailed variance analysis for the 2019/20 forecast, can be found within Appendix F

34. In summary the variance is due to an increase in revenue contribution of £600k to the Affordable Housing Development Program as well as increase costs in supporting and delivering the remedies required from the HSE works. The revenue contribution has increased as more spend on this program has been incurred this financial year. The impact of this is that the future profile of this scheme will be reprofiled to reflect the increase in resources earlier than expected.

35. Due to the increase in revenue the HRA is forecast not to make a contribution to the Funding Volatility reserve. This is to ensure that the working balances remain at a reasonable level.

36. Assumptions additional to the ones built into the General Fund draft budget are:

- Rents are to be increased by CPI plus 1%. For 2020/21 this is 2.7%. The 30-year forecast assumes an annual increase of 3%.
- The revenue contribution to fund the Affordable Housing Development program has been reprofiled.

Capital Programme

37. The Capital Programme was agreed at Ordinary Council on 27th February 2019.

38. Appendix G details the revised forecast on 19/20 agreed projects and the current predicted slippage.

39. On 8th October Council approved to increase the loan facilitation to Seven Arches investment Limited from £30m to £60m. The Capital programme has been updated with this increase. This variance is identified separately to the Council's capital project slippage. To date Seven Arches has only drawn down £13.5 million from this facilitation. It is expected a further £18.4 million will be requested this financial year. Leaving a balance of £28.1 million available for future financial years.

40. Slippage that is currently proposed and the reasons why are detailed below:

- King Georges Playing Field Pavilion - Due to the complexity of this development planning approval has been sought later on in the year than originally planned, therefore development of the site will begin later than anticipated.
- Community Hall Enhancements – Procuring the contractor and ensuring the works does not intervene with the groups currently utilising the halls has resulted in works spanning two financial years.
- Football Hub Development- Committee approval for the feasibility works took longer than originally timetabled. Feasibility study has now been commissioned and therefore the development is expected to commence in the next financial year.
- Car Parking Improvements – This work has been put on hold pending the Car Parking Strategy that is to be finalised. Therefore, workstreams from this strategy will be funded from this capital project.

41. Future capital projects that are in addition to the agreed projects were submitted to officers on 30 November 2019. Bids are subject to the following considerations:

- Alignment to Corporate Plan priorities
- How the project is to be financed
- The revenue implications of the project, interest and MRP costs as well as any efficiencies or savings to be achieved from the project.
- Payback period

42. Bids are to be reviewed at Exec Board and then proposed as part of the budget report to PRED committee on 12th February 2020.

Treasury Management and Investment Activity

43. This report provides an update on the Council's treasury activities as reported at September 11th committee.

Investments

44. The Council had investments of £8.000m at 31 December 2019 in deposit accounts with Lloyds Bank and Santander Bank. These are shown individually in Appendix H.

Borrowings

45. The Council had long-term borrowings of £61.166m and short-term borrowings of £14.000m at 31 December 2019. These are shown individually in Appendix I.

46. The long-term borrowings date from 2012 or earlier and are mostly HRA related. They have all been borrowed from the Public Works Loans Board (PWLB).

47. The short-term borrowings all date from this calendar year and are have been raised to finance the General Fund capital programme, in particular the provision of long-term loans to SAIL. They have all been borrowed from other local authorities for periods of up to one year, at an average interest rate of 0.91%.

Long Term Borrowing Strategy

48. The Council will need to borrow £41.096m over the next 2 years in order to deliver its capital programme based on current knowns, this is subject to any growth bids to be approved. Officers are working on a long-term borrowing strategy to enable the Council to obtain borrowing at the most economic rates whilst minimising risk.

49. Historically the default source of cheap and easily accessible long-term funding for local authorities has been the PWLB. In October, however, the PWLB unexpectedly raised its interest rates on new borrowings by 1%. The impact of this has been significantly diminish its competitiveness. For example, a loan of £30.000m would incur additional annual interest of £0.300m. If the duration of this loan was 30 years, this would equate to additional interest of £9.000m over the life of the loan.
50. This has prompted officers to consider other sources of funding. There are currently two such sources under consideration:
- a) To borrow longer term from other local authorities. Funding is potentially available from other councils for periods of up to 5 years at interest rates of around 2%. This would be an extension of the current approach of borrowing short-term from other local authorities.
 - b) To source funding from institutions such as corporate pension funds via the capital markets. This is a relatively untapped source of funding for local authorities. Initial research suggests that funding could potentially be obtained at an interest rate ranging between 2.18-2.68%.
51. Officers will present a long-term borrowing strategy proposal to this committee in the 2020/21 budget report.

Treasury and Prudential Indicators

52. The revised capital spends for 2019/20 is reported in the Capital Program section of this report. The other treasury and prudential indicator for 2019/20 are unchanged from those presented to this committee on 8th September 2019.

Reasons for Recommendation

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

Consultation

54. None

References to Corporate Plan

55. The Medium-Term Financial Plan is linked to achieving the current vision in the corporate plan. The final Medium-Term Financial Plan will be linked to the Corporate Strategy which is due to be reported to Ordinary Council in January.

Implications

Financial Implications

Name/Title: Jacqueline Van Mellaerts, Director of Corporate Resources

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56. The financial implications are set out within the report.

Legal Implications

Name & Title: Steve Summers, Chief Operating Officer and Interim Monitoring Officer

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57. 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.

58. 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.

Economic Implications

Name/Title: Phil Drane, Director of Strategic Planning

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58. There are no direct economic implications. It is important that the Council maintain a sustainable budget for the medium to long term in order to best support the borough, including provisions for a healthy local economy

Other Implications (where significant) – i.e. Health and Safety, Asset Management, Equality and Diversity, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

59. None

Background Papers

60. Budget Report 27th February 2019

Appendices to this report

Appendix A: Budget Setting Guidelines 2020-21

Appendix B: General Fund 1920 Outturn and Revised MTFP

Appendix C: General Fund 1920 Subjective Variance Analysis

Appendix D: Earmark Reserves

Appendix E: HRA Outturn and Revised 3 Year Plan

Appendix F: HRA Subjective Analysis

Appendix G: Capital Program 19/20 to 21/22

Appendix H: Investments 19/20

Appendix I: Borrowing 19/20