Committee(s): Policy Resources and Economic Development Committee	**Date:** 24 November 2021
Subject: 2022/23 Medium Term Financial Forecast and 2020/21 Mid-Year Review	**Wards Affected: All**
Report of: Jacqueline Van Mellaerts – Corporate Director (Finance & Resources)	**Public**
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Summary

The Medium-Term Financial Strategy (MTFS) 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 to meet its statutory responsibilities and deliver the priorities of the Council, over the medium term.

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 2020/21 General Fund Revenue budget, Housing Revenue Account and Capital program as well as the Treasury Management Mid-Year Review 2020/21

Main Report

Introduction and Background

1. On 24 February 2021, the Medium-Term Financial Strategy was and approved and the budgets for General Fund, HRA and the Capital Programme were set for 2021/22.

2. On 30 June 2021 at Policy, Resources and Economic Development Committee (PRED), the revised working balance positions were reported following 2020/21 outturn positions, in addition the capital programme was amended for the recommended carried forwards/slippage.

3. At the same committee, members were presented with a report titled Budget Guidelines & Financial Forecasts 2022/23. This report set out the Council's proposed budget timetable and budget guidelines that were to be used in

developing the MTFS for 2022/23. The report detailed current assumptions at that point in time and provided a 10-year financial forecast to aid in presenting the external pressures and uncertainties that Local Government continues to face.

4. On 30 September 2021 members of PRED Committee were presented with a budget update report. The purpose of the report was to set out the forecast revenue and capital budget positions as at period 5 for 2021/22.

5. Local government finance continues to experience external pressures and uncertainties. Proposed changes to the way government funds local government have been delayed. However, the Autumn Statement announced by the Chancellor on 27 October 2021, provided some certainty. Although not confirmed but as the announced spending review period is for three years this indicates it is highly likely the finance settlement due for publication early December, will be for three years.

6. The position reported within the report and supported by appendices highlights the challenges in which the Council still faces, if no further action is taken to reduce the forecasted funding gap.

Issue, Options and Analysis of Options

General Fund 2021/22 Outturn

7. When considering future budgets, any know pressures and savings identified in year are reflected. Therefore, the proposed forecast outturn for 2021/22 must be considered alongside the draft budgets for the MTFS.

8. Attached within Appendix A is a revised projected outturn for 2020/21. The current projection is still in line with the projected outturn reported at Septembers committee, which remains to be a balanced outturn position.

9. Appendix B highlights the subjective variances between the budget and forecast. In summary, the financial issue facing the Council is that income has decreased and is not meeting the expenditure requirement which is increasing.

10. Expenditure pressures are associated with interim running costs of the Brentwood Centre for part of this financial year, professional support required in supporting the Local Development Plan through its examination process, cost of carrying long-term borrowing due to taking the opportunity to refinance short term debt when Public Works Loan Board (PWLB) rates dropped and inflationary pressures on fuel and utilities.

11. Income pressures are associated with the longer-term impact of COVID-19. Parking income has consistently stayed at 75% of pre-pandemic levels since June 2021. With commuters working more hybrid season ticket income has declined with a reduction in renewals. Expectation is that parking income will remain at these levels as nationally employers encourage its employees to work under hybrid model.

12. The ability to reach a net position is due to utilising earmark reserves to support the expenditure and income pressures highlighted. A detailed breakdown of the earmarked reserves and their balances are within Appendix C.

General Fund MTFS Forecast

13. Members will note at the committee on the 30 June, a 10-year forecast was presented to members. These forecasts have continued to be refined, however based on current assumptions to date forecasts continue to highlight the deficit of resources over expenditure and the pressure the Council still faces, if no further action is taken to reduce the funding gap.

14. Table 1 below summarises the projected funding gap of the general fund and the impact on working balances.

Table 1: General Fund Forecasts

	2020/21 Actual £'000	**2021/22 Projected Outturn £'000**	**2022/23 Budget £'000**	**2023/24 Budget £'000**	**2024/25 Budget £'000**
Total General Fund Net Expenditure	12,063	9,060	10,359	10,705	11,253
Total Funding	(11,820)	(9,060)	(8,999)	(8,827)	(8,995)
Funding Gap	**243**	**0**	**1,360**	**1,878**	**2,258**
Working Balance b/fwd	**3,117**	**2,874**	**2,874**	**1,514**	**(364)**
Less: - Funding Gap	243	0	1,360	1,875	2,258
Working Balance c/fwd	**2,874**	**2,874**	**1,514**	**(364)**	**(2,622)**

15. The table above identifies the revised gap between resources and required expenditure. The 2022/23 and 2023/24 revised forecasts, include the base budget requirements agreed at Ordinary Council 27 February 2021, the position of these base budgets have changed, and this report highlights what has changed since the last agreed MTFS. The overriding influencing factor in the budget setting process for 2022/21 is, therefore, the need to generate

efficiencies, prioritise what the Council wants to deliver within its ambitious strategy and increase income to meet these gaps.

16. The key assumptions to arrive at the financial forecasts for 2022/23 -2024/25 are based on the assumptions set out with the Budget Guidelines appendix reported to committee on 30 June 2021. In addition to these assumptions in year adjustments have been made to ensure budgets fairly reflect the cost of providing the current service to the borough.

17. The changes made to the base budget can be categorised as follows:

   a) **Rebasing** – reducing service expenditure in line with costs incurred to provide the service.
   b) **Realigning** – aligning budgets to ensure they are meeting current service provision.
   c) **Inflation** – Applying an increase in costs for contractual obligations at 1.9%. At the time of writing the Budget guideline report, the inflation forecast was based on the treasury CPI forecast in May 2021. Officers are aware that since publication inflation currently is higher. Officers continue to analyse the impact of this current financial climate and the impact this could have on the Council's General Fund; a further update will be provided to the next committee.
   d) **Salary** – Assumption is that a 2% pay award per aims to keep salaries at Brentwood competitive within the market, to retain staff as well as recruit the right calibre of workforce.
   e) **National Insurance** – Government announced employers national insurance contribution will rise by 1.25% from April 2022, this has been modelled into the Council's current establishment costs.
   f) **Fees & Charges** – increase non statutory fees and charges by inflation of 1.9% as a minimum to ensure cost recovery is maintained but also being conscious that increasing fees & charges does impact the residents and businesses of the borough.
   g) **Income** – Increase in income for new initiatives and income separate to Fees & Charges.
   h) **Council Tax** – This is assumed to increase at 2% per annum.
   i) **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.
   j) **Government Funding** - is to remain as forecast in the 2021/22 MTFS which is detailed within Table 3 within this report.
   k) COVID-19 – Assumptions made in the reduction in income post pandemic.
   l) Earmark Reserves – Adjustments between contributing and withdrawing from reserves.

18. Table 2 quantifies the net impact of changes captured and applied to the Base budget for 2022/23-2024/25. Appendix C details the changes behind the summary provided in Table 2.

Table 2: MTFS Adjustments

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**
Original Funding Gap	**(204)**	**(146)**	**(146)**
Add:			
Rebasing	(92)	(92)	(92)
Realigning	742	521	521
COVID-19	962	962	962
Inflation	19	(1)	33
Salary	343	359	570
Growth	27	27	27
Vacancy Factor	(70)	(60)	(60)
Savings	(109)	(117)	(117)
Fees & Charges	(72)	(45)	(51)
Council Tax	(128)	(261)	(429)
Income	(58)	36	164
Earmark Reserves	0	279	302
Pressures	0	416	575
Revised Funding Gap	**1,360**	**1,878**	**2,258**
Revised Working Balance c/fwd	**1,514**	**(364)**	**(2,622)**

Government Funding

19. Detailed information on funding will not be available until early December. However, the Autumn Budget Statement confirmed the Government's intention to complete a multi-year spending review (SR2021), setting revenue and capital budgets for 2022/23-2024/25. For the last two years the Government has only held a single year spending review so a three year review means an assumption local authorities will receive a three year settlement.

20. The Autumn Budget was light on specific financial detail, however the assumptions that can be made from the statement are as follows:

  a) Negative RSG – it has not been confirmed that this will continue to be removed, but it seems unlikely it would be brought in now.

b) Multiplier Cap Compensation – Not confirmed that this will continue to give authorities RPI instead of CPI but seems unlikely to deviate from this now.
c) Funding Reform – Not confirmed that this will not go ahead during the spending review, but does not seem likely.
d) Minimum Funding Guarantee – Seems likely Government will continue to grant fund authorities ensuring their core spending power remains the same.
e) Three Year settlement – Not confirmed but spending review of three years seems to indicate settlement at least showing indicative allocations over this period.
f) Council Tax – Referendum thresholds are expected to remain at 2% per year through the spending review.

21. During February 2021 until April 2021, the Government consulted on the New Homes Bonus scheme. The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. The aim of the bonus was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth.

22. The consultation covers several options for reforming the programme to provide an incentive which is more focused and targeted on ambitious housing delivery, with the ambition to introduce a new scheme from April 2022. The consultation responses are yet to reported and therefore any changes to the scheme are not confirmed.

23. Current funding assumptions are therefore unchanged and continue to align to the Council's MTFS for 2021/22. Table 3 highlights the expected government funding:

Table 3: Government Funding Expected

	2017/18 Actual £'000	2018/19 Actual £'000	2019/20 Actual £'000	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Revenue Support Grant	233	Nil	Nil	Nil	Nil	Nil	Nil	Nil
News Homes Bonus	1,155	410	678	688	529	509	Nil	Nil
Lower Tier Service Grant	Nil	Nil	Nil	Nil	71	Nil	Nil	Nil
Covid-19 Funding	Nil	Nil	Nil	982	309	Nil	Nil	Nil
COVID-19 Income Compensation	Nil	Nil	Nil	1,105	240	Nil	Nil	Nil
Total	**1,388**	**410**	**678**	**2,775**	**1,149**	**509**	**Nil**	**Nil**
Business Rates Retention	1,798	2,220	1,800	1,800	1,634	1,535	1,535	1,535
Business Rates Levy Account	Nil	Nil	25	Nil	Nil	Nil	Nil	Nil
Total	**3,186**	**2,630**	**2,503**	**4,575**	**2,783**	**2,044**	**1,535**	**1,535**

Reserves

24. Closing working balances is currently forecast at £2.874m, which is still within the Council's minimum reserve level of £2.5m. Taking this revising forecast and projecting it forward with the current draft MTFS the working balances do go below the recommended levels in the next financial year.

25. 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.

26. 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.

27. Attached in Appendix D highlights the current forecast on the earmark reserve balances.

28. The reserves are grouped into four types of reserves:
    a) **Mitigation** – Earmarked specifically to mitigate financial risks to the Council.
    b) **Service** – Monies set aside for services from existing budgets to be used on specific investments initiatives or projects.
    c) **Specific** – Monies that the Council has received that have restricted conditions on how the money can be used.
    d) **COVID-19** – Government Grants earmarked for specific conditions associated with the pandemic.

29. Currently, expectation is that reserves will not be drawn down upon and will increase as the income from the Bay Tree Centre and Academy Place are earmarked for future development. However, these reserves will be utilised over the forecast period, there is current volatility in when these reserves will be used. For example, the in-borough regeneration reserve will be utilised when the development of the Bay Tree Centre begins, as the project is still being appraised it is unknown when the regeneration will start and therefore when the reserve is expected to be drawn upon to support the Council's budget in delivering that regeneration.

Addressing the Funding Gap

30. The strategy for managing the future budget gaps must be developed during the budget setting process. Officers are currently looking at:

    a) Service redesign and delivery of service strategies
    b) Maximising income generating opportunities
    c) Ensuring full cost recovery for services
    d) Reviewing how services are delivered to reduce costs
    e) Reviewing and rationalising Council Assets
    f) Generating innovative ideas for delivering efficiencies
    g) Reviewing and considering the activity of Seven Arches Investment Limited and the Joint Venture Brentwood Development Partnership
    h) Looking at shared service opportunities. The Joint Strategic Partnership with Rochford Council continues to progress, if this partnership continues it is likely, savings and efficiencies will be realised. These have not been factored into the current forecast.
    i) Prioritising the delivery of projects

HRA Outturn 2021/22

31. The Housing Revenue Account (HRA) last reported position was a deficit of £290k compared to a surplus of £434k. The main variance contributing to this forecast compromised of revenue costs associated to the small sites development programme.

32. Officers have been able to improve the last reported position with the deficit decreasing by £268k to £22k. Appendix E highlights the forecast position currently for the HRA.

HRA Forecast

33. The budget guidelines assumptions for the General Fund are applicable to the HRA. An additional assumption is that the rents rise by CPI plus 1% as per recommended government guidance. For 2022/23 this increase will be 4.1%

34. A 30-year forecast for the HRA is produced annually by a third party supported by officers. The revision of this business plan is currently underway aligning the revenue budgets alongside the HRA asset investment program and housing development program. This will support in ensuring the HRA delivers a balanced budget and will be reported as part of the budget report.

Capital Program

35. The projects included in the capital program are listed in Appendix F, alongside their forecast outturn and proposed slippage.

36. There is a significant reduction in capital outlay for the following reasons:

a) Asset Management Strategy - £79k – Compliance projects are taking precedent, with management decision to not invest in the assets until an asset management strategy is delivered.
b) Asset Development - £288k surplus funds from delaying a development opportunity.
c) Strategic Property acquisition - £4.650m no assets available in borough currently.
d) Car Park Improvements – £193k Project halted pending Car Park Strategy review
e) Open Spaces – Car Parks - £149k Project has not progressed
f) Football hub development – £641k Project continues in the pipeline and development is to slip into future years.
g) HRA Affordable Housing – £6 million Budget needs to be reprofiled alongside the development timeline to align costs with development, currently the budget is front loaded.

37. Regarding the Capital Program beyond 2021/22, growth bids have been received and scrutinised by the Senior Leadership Team. These bids will then be prioritised, and funds allocated based on the priority need of the organisation developing the future capital program.

38. There are many ambitious schemes the Council wants to undertake and limited funds available. All these capital projects need to financially appraised to help support the revenue budget as well as the Council's priorities. Zero based budgeting is the term being applied to the Capital program for future years, by prioritising the all the projects the council can then make the decision on what limited funds can be allocated. Projects that do not get funds allocated in this budget setting cycle will be reviewed as part of the following years budget cycle, ensuring the Council delivers its ambitions in a timely manner restricted by finances.

Treasury Management Mid-Year Review

39. The Council's Treasury Management Strategy was approved by Council on 24 February 2021. It is a requirement of the Strategy that a half yearly report is presented to Members detailing any changes to the approved strategy.

40. This mid-year report within Appendix G covers the following:

a) An economic update for the 2021/22 budget year to date
b) A review of the Treasury Management Strategy and Annual Investment Strategy
c) A review of compliance with Treasury and Prudential Limits for 2021/22
d) A review of the Council's borrowing activity
e) A review of the Council's investment portfolio for 2021/22
f) A review of compliance with Treasury and Prudential Limits for 2021/22

Revision to Public Works Loan Board and Prudential Code

41. The PWLB issued updated guidance for applicants in August, following the revisions to its lending terms in November 2020. The guidance provides definitions of the categories of capital expenditure that would be deemed eligible for PWLB funding, such as housing and regeneration. The guidance also reiterates that borrowing to fund the purchase of assets held primarily for yield, completed after November 2020, would not be eligible for PWLB support. This categorisation provides a useful framework for the Council when considering the financing of future capital investment proposals.

42. The Council has satisfied itself that the purchases the Council has made since November 2020 are compliant with PWLB guidance. The PWLB guidance is attached for reference in Appendix H.

43. CIPFA is consulting on revisions to two documents:

a) The Prudential Code for Capital Finance in Local Authorities: Professional code of practice that support local authorities in taking capital investment decisions.

b) The Treasury Management in the Public Services Code: Sets out good practice in treasury management and is complementary to the Prudential Code.

44. The most significant points arising for the Council are:

a) Prudential Code
   i. The paragraph in the previous version prohibiting “borrowing in advance of need” has been replaced with new paragraphs, which provide examples of:
      - prudent borrowing (considered legitimate), such as temporary management of cash flows in the context of a balanced budget; and
      - non-prudent borrowing (not considered legitimate) such as borrowing primarily for financial return.
   ii. The Code proposed quarterly reporting of prudential indicators, and technical revisions to them.

b) Treasury Code: A new treasury indicator is proposed, called the liability benchmark when introduced, it will feature in the treasury management strategy statement for 2022/23 and future years.

c) CIPFA has recently confirmed that the introduction of the new Prudential Code is expected to be a soft approach during 2022/23 with full compliance by 2023/24.

Consultation

45. None

References to Corporate Strategy

46. Maintaining a financial strategy for the Council helps inform how corporate priorities are delivered, in particular aspirations to deliver an effective and efficient council.

Implications

Financial Implications
Name/Title: Jacqueline Van Mellaerts, Corporate Director (Finance & Resources)
Tel/Email: 01277 312500/jacqueline.vanmellaerts@brentwood.gov.uk

47. Financial implications have been included within the report.

Legal Implications
Name & Title: Amanda Julian, Corporate Director (Law & Governance) and Monitoring Officer
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48. Section 151 of the Local Government Act 1972 requires the Council to make proper arrangements for the management of its financial affairs. The adopting a Medium-Term Financial Strategy and reporting on this to Councillors is consistent with these obligations and will assist the Council in setting a balanced budget, by forecasting any funding gaps that will need to be addressed.

Economic Implications
Name/Title: Phil Drane, Corporate Director (Planning and Economy)
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49. It is important that the Council monitors budgets as part of a Mid-Year Review and setting a Medium-Term Financial Strategy. This will inform how corporate priorities are funded and delivered, including aspirations to grow the economy.

Equality and Diversity Implications
Name/Title: Kim Anderson, Partnerships, Corporate Manager (Communities, Leisure and Health)
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50. The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:

   a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
   b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
   c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

51. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that ‘marriage and civil partnership’ is not a relevant protected characteristic for b) or c), although it is relevant for a).

52. The proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

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

None

Background Papers

None

Appendices to this report

- Appendix A: General Fund 2021/22 Estimated Outturn
- Appendix B: General Fund Subjective Changes
- Appendix C: Earmarked Reserves Forecast
- Appendix D: 2022/23 Base Budget Amendments
- Appendix E: HRA Forecast
- Appendix F: Capital Outturn
- Appendix G: Treasury Management
- Appendix H: PWLB Guidance (August 2021)