

14 January 2015

Finance and Resources Committee

Medium Term Financial Plan Update

Report of: Jo-Anne Ireland, Acting Chief Executive

Wards Affected: None

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. Recommendation(s)

2.1 Members views are requested on the key areas of the initial budget:

- (i) Proposed and Anticipated Savings**
- (ii) Proposed Budget Investment**
- (iii) Working Balance & Reserves**
- (iv) Council Tax**

- 2.2 That the key areas of the initial budget are considered by the Audit & Scrutiny Committee, with comments and feedback to be received by this Committee at its meeting on 11 February 2015.**

3. Introduction and Background

- 3.1 On 5 February 2014, the Local Government Minister, Brandon Lewis MP, made a written statement on the Local Government Finance Settlement 2014/15, which included indicative data for 2015/16.

- 3.2 After taking into consideration the indicative funding, the funding position of the MTFP as approved in March 2014 was as follows:

	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Total Net Forecast Spend	10,273,450	10,349,104	10,213,921	10,512,580
Total Funding	(10,273,450)	(9,980,568)	(9,737,300)	(9,653,160)
Funding Gap / (Surplus)	0	368,536	476,621	859,420
Anticipated Savings	Included above	(450,000)	(680,000)	(680,000)
Net Funding Gap / (Surplus)	0	(81,464)	(203,379)	179,420
Working Balance b fwd	3,648,855	3,648,855	3,730,319	3,933,698
Working Balance c fwd	3,648,855	3,730,319	3,933,698	3,754,278

- 3.3 In addition to the data above, the Council also agreed to set aside funds to support the development of William Hunter Way. A sum up to the maximum value of £1.2 million was earmarked from the Working Balance to support this work. At this level, it was agreed that the potential spend would not erode the minimum Working Balance level of £2.5million agreed for 2014/15.
- 3.4 Members may also recall that at the meeting of Finance and Resources in January 2015, a decision was taken to join an Essex Wide Pool for Business Rates in 2015/16. Membership of the pool has the potential to generate additional income for the Council, with current projections of a potential gain of £99,000 in 2015/16.

4. Issue, Options and Analysis of Options

Autumn Statement

- 4.1 The Chancellor delivered his Autumn Statement on 3 December 2014. The key message for Local Government was that there were no additional funding reductions planned for 2015/16 beyond those already indicated within the indicative settlement figures. However, the Government aims to find a further £10bn of efficiency savings by 2017/18. The delivery of these will be led by the Cabinet Office and are anticipated to focus on the areas of digital take up of public services and improving IT procurement.

4.2 Other messages from the Autumn Statement focused on Business Rates including:

- The Government will carry out a review of the future structure of the Business Rates. Further information on this will be reported by Budget 2016. The review is intended to be revenue neutral and “consistent with the Government’s financing of Local Authorities”.
- The Government agreed to extend Small Business Rates Relief from 2013/14 and to compensate Local Authorities for the loss of Business Rates income. In his Statement, the Chancellor agreed to continue this arrangement for 2015/16.
- Increases in Business Rates will again be capped to 2% from April 2015 instead of using the September Retail Price Index (2.4%). It is anticipated that funding from DCLG will make this revenue neutral for the Council.
- The current £1,000 Business Rates discount to retailers with rateable values below £50,000 will continue in 2015/16 and will increase to £1,500.
- The rules will be changed so that alterations to rating assessments in England can only be backdated to the period between 1 April 2010 and 1 April 2015 for ratepayer’s appeals made before 1 April 2015 and Valuation Office Agency (VOA) alterations made before 1 April 2016.

Draft Finance Settlement

4.3 The information in the Draft Finance Settlement received on 18 December 2014 was as follows:

	2014/15	2015/16 Indicative (Dec 2013)	2015/16 Provisional (Dec 2014)
	£	£	£
Revenue Support Grant	1,719,000	1,250,470	1,258,692
NNDR Baseline Funding	1,478,000	1,518,000	1,505,960
Council Tax Freeze Grant	56,470	56,470	56,485
TOTAL	3,253,470	2,824,940	2,821,137

New Homes Bonus

4.4 For 2015/16, the Council is due to receive £1,455,427 in New Homes Bonus Grant. This is some £58,823 lower than originally anticipated. The profile of the Grant payments are shown below:

	11/12	12/13	13/14	14/15	15/16	16/17 Est	17/18 Est
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Yr 1	255	255	255	255	255	255	
Yr 2		214	214	214	214	214	214
Yr 3			330	330	330	330	330
Yr 4				416	416	416	416
Yr 5					241	241	241
Yr 6						250	250
Yr 7							250
TOTAL	255	469	799	1,215	1,456	1,706	1,701

The primary reason for the reduction in New Homes Bonus is that the net increase in stock between October 2013 and October 2014 was lower than anticipated with a net increase of 166 properties, compared to 314 in the previous year.

Planning Assumptions

- 4.5 **Inflation (CPI)** - The consumer prices index (CPI) shows a decrease in the forecast for CPI in 2014 of 0.4% and 2015 of 0.8%, compared to Budget 2014:

	2013	2014	2015	2016	2017
Autumn Statement 2014	2.6%	1.5%	1.2%	1.7%	2.0%
Budget 2014	2.6%	1.9%	2.0%	2.0%	2.0%
Autumn Statement 2013	2.6%	2.3%	2.1%	2.0%	2.0%

For medium term financial planning purposes, the inflation rates per Autumn Statement 2014 have been used for goods and services.

- 4.6 **Pay Awards (Inflation)** – National agreement has been reached for a 2 year pay award which will run from 1 January 2015 to 31 March 2016. For Brentwood Borough Council employees this results in a 2.2% increase from 1 January 2015. In addition to this, a one off non-consolidated payment of £150 per employee has been agreed. The terms of this payment are such that it is not added to the basic pay. For financial planning purposes a 1% increase has been included for 2016/17 onwards.
- 4.7 **Fees and Charges** - Historically, the Council has increased fees and charges in line with inflation. This is to reflect that the costs of running the service will rise by the same rate as inflation, and therefore we try and

maintain fees and charges at the same level. The table below shows the recent decisions on Fees and Charges:

Year	Change
2011/12	+1.00%
2012/13	Freeze
2013/14	+2.50%
2014/15	+2.50%
2015/16	Freeze

There is a potential risk that there will be an implicit cost to the proposed freeze since it will not keep pace with the inflationary cost increases, however this cannot be quantified or confirmed until such time as the review of the current charging policies has been undertaken.

Council Tax

- 4.8 In 2014/15, the Council chose to reduce its element of the Council Tax by 1.5%. As a result of this, the Council received a Grant equivalent to a 1% increase (£56,470) which will be received in 2014/15 and 2015/16. Government have pledged to continue with the Council Tax Freeze Grants for 2015/16, but cannot commit anything beyond the General Election.
- 4.9 Limits on any proposed Council Tax increases will remain in place for 2015/16. The provisional announcement is that this is to remain at the current level of 2%.
- 4.10 The current MTFP has been modelled with a 2% reduction for 2015/16, with a freeze for each year thereafter. However, it must be noted that this is not a confirmed decision and a range of modelling options between a 2% reduction and 2% increase will be presented to Audit & Scrutiny for review and comment.

Working Balances and Reserves

- 4.11 As part of the budget approved in March 2014, a minimum General Fund Working Balance of £2.5m was agreed. In accordance with best practice, an annual risk assessment will be undertaken to check the level required for 2015/16. Initial calculations show that the assessed level ranges from £2.1m - £2.5m.
- 4.12 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 2014 was £3.3 million.

Potential Savings and New Developments

- 4.13 A number of potential savings have been identified during the update and preparation of the MTFP. The key savings are outlined in the table below.

	2015/16 £	2016/17 £	2017/18 £
Recycling – Introduction of Textiles Service	20,440	20,440	20,440
Open Spaces – Crazy Golf Income from August 2015	13,000	25,000	25,000
Street Services – Reduction in Fuel Prices	75,000	75,000	75,000
Car Parks – increased income from Lease arrangement	120,000	120,000	120,000
Housing - Service/Budget Review	22,000	22,000	22,000
Assets – Anticipated Income from Old House	-	-	64,000
Assets – Anticipated Income from Warley TC	-	-	42,240
TOTAL	250,440	262,440	368,680

Anticipated Savings

- 4.14 The MTFP approved in March 2014 included anticipated savings of £680,000 for 2015/16. These were proposed to be delivered through:

	£
Senior Management Restructure	230,000
Contact Centre	250,000
Revenues & Benefits	200,000
TOTAL	680,000

- 4.15 As previously reported to this Committee in October, the Contact Centre Savings were identified to be challenging to deliver in year 1 (2014/15). This will have a consequential effect in the delivery of savings in 2015/16.

In addition to this, the delayed introduction of Universal Credit has resulted in non delivery of the Revenues and Benefits related savings.

4.16 The anticipated savings have now been revised as follows:

	2015/16 £	2016/17 £	2017/18 £
Senior Management Restructure	100,000	200,000	200,000
Customer Services Transformation	100,000	150,000	200,000
Lease Reviews	10,000	10,000	10,000
TOTAL	210,000	360,000	410,000

4.17 Due to financial constraints, the Council is not in a position to invest heavily in services in the short term. Instead, the Council must carefully consider a longer term strategy to reduce costs and/or increase income levels. This work will be undertaken alongside the development of the Local Development Plan (LDP) and also the planned update to the Corporate Plan.

4.18 The current proposed developments are as follows:

Description	2015/16 Cost £	Future Cost £
Borough Bulletin – 2 editions per year	2,500	2,500
Essex Devolution Strategy	5,000	-
Apprenticeships	62,250	62,250
Local Development Plan – additional costs	50,000	-
Renaissance Group Grant	20,000	-
Additional Events	15,000	15,000
Election Marketing	5,100	-
Lone Worker Devices	4,000	4,000
TOTAL	163,850	83,750

- 4.19 In addition to the above, the Council needs to consider revenue implications of potential borrowing to finance Capital projects. This area is outlined below.

Draft Capital Programme

- 4.20 In order to continue with Capital Investment plans over the medium term, the Council will need to borrow funds. A number of schemes have been carried forward from 2014/15 which are primarily fully funded. There are, however, a number of previously agreed or essential items of expenditure which must also be considered. The draft items for inclusion in the General Fund Capital Programme are as follows:

	2015/16 £	2016/17 £	2017/18 £
Existing Schemes:			
Vehicle Replacement Programme	200,000	150,000	150,000
Car Park Refurbishment & Upgrade	15,000	-	-
Home Repair Assistance Grants	50,000	50,000	50,000
Disabled Facilities Grants	280,000	280,000	280,000
CCTV System Upgrade	5,000	5,000	-
Play Area Refurbishments	100,000	100,000	100,000
Town Hall Remodelling	2,780,890	-	-
TOTAL	3,430,890	585,000	580,000
New Schemes:			
Brentwood Leisure Centre – filter refurbishment, boilers and air handling	88,280	-	-
Improvements at Brentwood and Shenfield stations	-	200,000	-
Structural and Safety Works at the Multi Storey Car Park	375,050	663,950	-
Old House Redevelopment	1,080,000	-	-
ICT Strategy	100,000	100,000	100,000

Replacement of Folding Machine	2,000		
TOTAL	1,645,330	963,950	100,000

- 4.21 Whilst interest rates are low, the Council will seek to utilise internal borrowing to meet the capital expenditure. However, where borrowing is necessary, there is a requirement to make a charge to the revenue account called the minimum revenue provision (MRP). This charge is based on the value and life of the assets funded by borrowing (internal or external) and results in sufficient cash being available to repay the loan at the end of the term. The MRP is in addition to the actual interest charges incurred to finance the debt.
- 4.22 Capital receipts of £4m have been assumed in the funding of the draft Capital Programme. This does not however cover the full funding requirement of the draft programme and estimated borrowing of some £4m is also required to fund the remaining programme over the next 3 years. The borrowing costs for this assumed borrowing are outlined in the table below.

	2015/16 £	2016/17 £	2017/18 £
Interest	39,690	71,800	121,320
Minimum Revenue Provision (MRP)	37,630	65,110	167,370
TOTAL	77,320	136,910	288,690

- 4.23 In order to generate further income from Assets, the Council may also need to consider further investment for property acquisitions or refurbishments. A key principle of borrowing in this regard must be to ensure that the costs of borrowing can be covered in order to prevent further pressure on the Revenue budget.

Summary

- 4.24 The table below shows the impact on the original funding position (outlined in the table at para 3.2) of the updated information above, together with the updated information identified through the Half Year Budget Review process:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Total Net Forecast Spend	9,997,927	10,092,549	10,899,087	11,082,531
Total Funding	(9,980,570)	(9,306,263)	(9,665,966)	(9,436,121)
Funding Gap / (Surplus)	17,357	786,286	1,233,121	1,646,410
Anticipated Savings	-	(210,000)	(360,000)	(410,000)
Proposed Developments	-	163,850	83,750	83,750
Net Funding Gap / (Surplus)	17,357	740,136	956,871	1,320,160
Working Balance b fwd	4,511,000	3,293,643	2,553,507	1,596,636
Earmarked for WHW	1,200,000	-	-	-
Working Balance c fwd	3,293,643	2,553,507	1,596,636	276,476

- 4.25 The table above identifies a potential funding gap of some £3m over the next 3 years. This is clearly not financially sustainable and the Council must carefully consider its medium – long term strategy to reduce costs and/or generate additional income in order to bridge the funding gaps.
- 4.26 Due to the impending General Election, and the increased uncertainty of funding arrangements for 2016/17 and beyond, it will be important for the Council to focus on its long term strategy during 2015/16 in order that the gap can be addressed from 2016/17 onwards. The Funding Volatility Reserve can be used for some short term funding in 2016/17, but cannot support the ongoing budget pressures.

Next Steps

- 4.27 The Audit and Scrutiny Committee (at its meeting on 27 January 2015) will formulate responses to the Finance and Resource Committee's initial principles and assumptions contained within this report.
- 4.28 The Finance and Resource Committee will then finalise its proposals for submission by way of recommendation to the Council taking into account the comments from the Audit and Scrutiny Committee. The report to Council must show the Finance and Resource Committee response to those comments made by Audit & Scrutiny.
- 4.29 The key work areas that will be considered by Audit & Scrutiny are as follows:

Work Area	Expected Outcome
1) Review Savings Proposals	<ul style="list-style-type: none"> • Evaluate the impact of any savings proposed (see 4.13 and 4.15) • Test if the anticipated savings are realistic and achievable
2) Review Budget Growth Proposals	<ul style="list-style-type: none"> • Evaluate the impact of any new investment proposals (see 4.17 and 4.19) • Confirm that robust business plans are in place for new initiatives (and test the assumptions within them)
3) Review the working balance and reserve levels	<ul style="list-style-type: none"> • Review the risk assessments undertaken to inform the levels • Test the levels through benchmarking data with similar authorities
4) Review the Council Tax proposals	<ul style="list-style-type: none"> • Evaluate the financial impact of the proposal

5. Reasons for Recommendation

5.1 Effective financial management underpins all of the priorities for the Council.

6. Implications

Financial Implications

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6.1 The financial implications are set out in the report.

Legal Implications

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

7. Appendices to this report

None.

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