

15 December 2015

Policy, Finance and Resources Committee

Preliminary Medium Term Financial Plan

Report of: *Chris Leslie, Finance Director*

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 That the preliminary General Fund funding gap for 2016/17 and beyond be agreed.**
- 2.2 That the preliminary new capital proposals for 2016/17 and beyond be agreed.**
- 2.3 That the implications to the HRA resulting from the announcement made by the Chancellor as part of the summer budget to reduce HRA rents by 1% for the next 4 years be agreed.**

3. Introduction and Background

- 3.1 At the Council meeting on the 4 March 2015, Council approved the budgets for 2015/16 for the General Fund, HRA and Capital. The budget and capital programme was amended at the Council meeting on 10 June 2015.

4 General Fund

4.1 The General Fund position of the MTFP as approved on 10th June 2015, is outlined in Table 1:

Table 1 – General Fund Position as approved on 10th June 2015

	2015/16 Forecast £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Total Net Forecast Spend	9,875	10,272	10,372	10,372
Total Funding	(9,875)	(10,087)	(9,858)	(9,658)
Funding Gap	Nil	185	514	714
Working Balance b/fwd	4,511	4,161	3,326	2,812
Less:- Funding Gap	Nil	185	514	714
Less: Earmarked for WHW	350	650	-	-
Working Balance c/fwd	4,161	3,326	2,812	2,098

4.2 The Council has agreed to set aside funds to support the development of William Hunter Way. A sum up to the maximum value of £1 million has been earmarked from Working Balances to support this work.

4.3 Members may also recall that at the meeting of the Finance and Resources Committee 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 around £100,000 in 2015/16. This has been reflected in the budget for 2015/16.

5 Issue, Options and Analysis of Options

Announcements since the Election

5.1 The Chancellor made an announcement on 9th September 2015 that there will be an Office for Budget Responsibilities (OBR) forecast alongside the Spending Review on Wednesday 25 November 2015. The government therefore published a joint Autumn Statement and Spending Review on this date.

5.2 An announcement was also made on the future of local government funding and focused mainly on Business Rates. In summary:

- By 2020, central funding of local government through the revenue support grant will be replaced entirely by business rates income. Currently, councils can keep half of the business rates collected in their

area. In addition, the nationally set ‘uniform business rate’ will be abolished, allowing authorities to lower their respective rates.

- Combined authorities with directly elected mayors will also be able to increase the tax, provided they have the backing of business.
- Councils will also be required to use the income for extra responsibilities. These are still being worked out and the Communities secretary has committed to working with local government on what they are. Local government expects these extra responsibilities could largely be made up of the abolition of existing grants for some services, such as public health or new homes bonus.
- Under the reform, councils would be expected to fund these services through business rates income. Excluding the dedicated schools grant, councils receive about £11bn in grants from central government departments, including health, transport and the Home Office.

Autumn Statement – Headlines for Local Government

- 5.3 On 25 November 2015 the Chancellor of the Exchequer, George Osborne MP, announced the outcome of the Spending Review 2015. The Spending Review (SR2015) details spending settlements for each government department over the next four years (2016-17 to 2019-20). In his speech the Chancellor said the Spending Review had four objectives: (i) to develop an integrated health and care system, (ii) spread economic growth through a devolution revolution, (iii) address social failures in order to extend opportunity, and (iv) protect national security.
- 5.4 The Spending Review sets out plans for the local government spending measure, which is made up of the Local Government Departmental Expenditure Limit (DEL) and locally financed expenditure, as Table 2 shows. Overall local government spending is forecast to rise by £0.2bn in cash terms from £40.3bn in 2015/16 to £40.5bn in 2019/20; this represents a decrease of 6.7% in real terms, based on the latest inflation forecasts.

Table 2 – Local Government DEL & Locally Financed Expenditure

Local Government	£'billion				
	2015-16	2016-17	2017-18	2018-19	2019-20
Local Government DEL	11.5	9.6	7.4	6.1	5.4
Locally Financed Expenditure	28.8	29.0	31.5	33.6	35.1
Local Government Spending	40.3	38.6	38.9	39.7	40.5
Year-on-year change to DEL Funding (% cash)		-17%	-23%	-18%	-11%

- 5.5 The Local Government Departmental Expenditure Limit (LG DEL) will reduce from £11.5bn in 2015/16 to £5.4bn in 2019/20; a 56% real terms decrease. Revenue Support Grant is included within the LG DEL.

- 5.6 Locally financed expenditure is forecast to increase by £6.3bn from £28.8bn in 2015/16 to £35.1bn in 2019/20; a 13% real terms increase.

Phasing Out of Revenue Support Grant

- 5.7 As previously announced, Revenue Support Grant (RSG) will be phased out entirely by 2019/20. DCLG will publish a consultation 'shortly' on changes to the local government finance system to 'rebalance support including to those authorities with social care responsibilities'. This consultation will 'pave the way for the implementation of 100% business rate retention' and will assess the main income streams available to local government, including council tax and business rates.

New Homes Bonus

- 5.8 Details of reforms to the New Homes Bonus (NHB) will be set out as part of the provisional local government finance settlement consultation in December. The Government's preferred options will lead to savings in the grant of at least £800m, 'which can be used for social care'. The proposals for changes to the NHB will include reforms 'sharpening the incentive to reward communities for additional homes' and reducing the length of bonus payments for new homes from 6 years to 4 years. The announcement in December will include proposals to introduce a floor in NHB Grant 'to ensure that no authority loses out disproportionately' as a result of the changes. This could result in a future loss in income of around £500k a year.

Finance Settlement

- 5.9 As detailed information on funding will not be available till late December 2015, the funding assumptions are as per those reported at the budget setting meeting on 4th March 2015 and only updated for any known changes.

Planning Assumptions for 2016/17 to 2018/19

- 5.10 **Pay Awards (Inflation)** – For financial planning purposes a 1% increase has been included for 2016/17 onwards.

Pressures

5.11 The current pressures are outlined in Table 3. These are subdivided into 'New Pressures' and 'Recurring Pressures':

Table 3 – General Fund – Current Pressures

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000
Historic Recurring Pressures			
Legal Services Costs	150	150	150
IT Costs	70	70	70
Bank Charges	20	20	20
Temporary Accommodation	15	15	15
Increase in HB Bad Debts	50	50	50
Sub-Total Historic Recurring Pressures	305	305	305
New Pressures			
Re-cycling Contract	300	300	300
Investment in the Capital Programme	0	0	100
Insurance Premium Tax	40	40	40
HRA decrease in recharges	35	35	35
Changes in the NI Contributions	212	214	216
Pay Inflation	125	125	226
Sub-Total New Pressures	712	714	917
Total Pressures	1,017	1,019	1,222

Funding

5.12 The current increase / loss in funding is outlined in Table 4:

Table 4 – Funding Analysis

Description	2016/17 £'000	2017/18 £'000	2018/19 £'000
Re-cycling Grant no longer available	280	280	280
Loss of Benefit Subsidy Grant	75	75	75
Increase in Council Tax Base (assumes no increase in Council Tax)	(80)	(104)	(128)
Assumed Collection Fund Surplus	(200)	0	0
Net Loss in Funding	75	251	227

- 5.13 **Council Tax Base:** It is estimated that the Council Tax base will increase by around 320 Band D equivalent properties. In addition past collection performances indicate that the Council Tax collection rate can be increased from the current rate of 98% to 99%. The impact of this will be an increase in income of around £80k to that already budgeted for in the MTFP report agreed in March 2015.
- 5.14 **Collection Fund:** Initial calculations indicate that the Collection Fund will have a surplus of around £200k to that already budgeted for in the MTFP report agreed in March 2015. Please note that this is a 'one off' amount.
- 5.15 **Council Tax:** Members should note that if a decision is made to increase the Council Tax by the amount permitted without having a referendum, (which currently is an increase of under 2% or £3.35 per year for a Band D property), this will provide additional income and also increase the Council's base budget position by £107k in 2016/17. The implications for Council Tax increases in subsequent years will be £221k in 2017/18 and £336k in 2018/19.
- 5.16 A benefit of no increase in the Council Tax has been that the availability of Council Tax freeze grant, which equated to around 1% increase in Council Tax. The Council Tax freeze grant has been limited to a year or a number of years and was then incorporated into the general Revenue Support Grant figure, which has decreased significantly year on year. However with the introduction of the new system as outlined in paragraph 5.7, Revenue Support Grant will no longer be available. The disadvantage of accepting the Council Tax freeze grant is that the Council's base budget will decrease.

Summary on General Fund

5.17 Table 5 shows the impact on the original funding position (outlined in Table 1 at paragraph 4.1) of the updated information above, together with the updated information identified through the Half Year Budget Review process:

Table 5 - Revised General Fund Position

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Total Net Forecast Spend	9,875	10,272	10,372	10,372
Total Funding	(9,875)	(10,087)	(9,858)	(9,658)
Funding Gap	Nil	185	514	714
Pressures	305	1,017	1,019	1,222
Net Loss in Funding	0	75	251	227
Total Funding Gap	305	1,277	1,784	2,163
Working Balance b/fwd	4,511	3,856	1,929	145
Less: Total Funding Gap	305	1,277	1,784	2,163
Less: Earmarked for WHW	350	650	-	-
Working Balance c/fwd	3,856	1,929	145	(2,018)

5.18 Table 5 identifies a potential funding gap of over £5.2m over the next 3 years (excluding any potential overspends in 2015/16). This is clearly not financially sustainable and the Council must carefully consider its medium and long term strategy to reduce costs and/or generate additional income in order to bridge the funding gap.

Next Steps

5.19 Officers are continuing to work on identifying proposals to bridge the funding gap and will present these for consideration at the next meeting.

Working Balances and Reserves

5.20 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 2016/17. Due to the size of the gap it is likely savings will continue to be developed throughout 2016/17 to reduce the draw down from reserves.

5.21 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 1st April 2015 is £2.6 million.

6 Capital Programme

6.1 The capital programme as agreed at Council on 10th June 2015, updated for new agreed schemes and carry forwards from 2014/15, is outlined in Table 6.

Table 6 – Existing Capital Programme

Description	Expenditure				
	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
EXISTING					
HRA Decent Homes Schemes	4,566	3,000	3,000	3,000	13,566
Town Hall Remodelling	3,745	0	0	0	3,745
Improvements & Parking Scheme at Brentwood & Shenfield	1,600	200	0	0	1,800
New Homes Build (HRA)	1,555	2,154	2,055	2,000	7,764
Section 106 Funded Schemes	1,045	0	0	0	1,045
Upgrade the multi storey car park	375	664	0	0	1,039
Vehicle & Plant Replacement Programme	350	150	150	0	650
Disabled Facilities Grant	280	250	250	250	1,030
Unauthorised Incursions	150	0	0	0	150
Play Area Refurbishments	130	100	100	0	330
Asset Management Strategy	126	0	0	0	126
Car Park Refurbishment & Upgrade	110	0	0	0	110
ICT Strategy	100	100	100	100	400
Brentwood Leisure Trust	88	0	0	0	88
Hutton Community Centre	50	0	0	0	50
Renaissance Group	48	0	0	0	48
Home Repairs Assistance Grant	30	30	30	30	120
Irrigation for Golf Course	30	0	0	0	30
Wheelie Bins Pilot	20	0	0	0	20
Hutton Drive Parking Bays	20	0	0	0	20
Open Space Sinage	13	0	0	0	13
CCTV System Upgrade	8	5	5	5	23
Folding Machine	2	0	0	0	2
TOTAL	14,441	6,653	5,690	5,385	32,169

6.2 The current projection for the capital programme is that it will spend £7.437m in 2015/16 against the budget of £14.441m. The under spend will likely be carried forward into 2016/17. The capital expenditure in 2015/16 will be funded from capital receipts generated from the sale of assets, which reduces the need to borrow and associated revenue costs.

New Capital Schemes

6.3 Table 7 outlines proposals for new schemes to be included in the 2016/17 and beyond capital programme.

Table 7 – New Capital Schemes

Description	Expenditure			
	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
NEW SCHEMES				
Resurface Car Park at King Georges Playing Field	200	0	0	200
Cemetery Headstones	20	20	20	60
Parking Bays at Woodman Road Cemetery	25	0	0	25
Vehicle & Plant Replacement Programme	900	1,070	175	2,145
Structural & Safety Works at the Multi Storey Car Park	72	0	0	72
Leisure Strategy	250	250	0	500
TOTAL	1,467	1,340	195	3,002

7 HOUSING REVENUE ACCOUNT

Introduction and Background

7.1 The HRA is the budget operated by the Council which contains the income and expenditure of services connected with the Council's Housing Landlord role.

7.2 The main source of income into the HRA is the rental income from the properties let by the Council. These rents are calculated by reference to a Government formula which provides a target rent for the Council's properties to reach over a period of time.

Announcement since the General Election

- 7.3 As part of the summer budget 2015, it was announced that rents in the social housing sector will be reduced by 1% a year for the next four years.
- 7.4 The implications of the above announcement on the setting of rents in 2016/17 is a loss of £214k as outlined in Table 8:

Table 8 – Implications for the HRA

	Bases	2016/17 Income £'000	2016/17 Expenditure £'000	(Surplus) / Deficit £'000
Current Assumption	CPI	(12,120)	12,093	(27)
New Basis	1% Reduction	(11,905)	12,093	188

- 7.5 The proposed reduction in rents will result in the HRA making a deficit from 2016/17 onwards until 2025 (see Appendix A).
- 7.6 Officers are in the process of reviewing the current HRA capital program and the Affordable Housing Development Program to see how they can bridge the gap.
- 7.7 This will also mean that the Council will need to revisit its strategy to repay the self financing debt. Currently the business plan assumes voluntary MRP payments are made.

8. Reasons for Recommendation

- 8.1 Effective financial management underpins all of the priorities for the Council.

9. Implications

Financial Implications

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- 9.1 The financial implications are set out in the report.

Legal Implications

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- 9.2 There are no direct legal implications arising from this report.

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

None.

10. Background Papers (include their location and identify whether any are exempt or protected by copyright)

None.

11. Appendices to this report

None.

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