

16 February 2016

Policy, Finance and Resources Committee

General Fund Budget 2016/17

Report of: *Chris Leslie, Finance Director*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

1.1 The Medium Term Financial Plan (MTFP) considered by Policy, Finance and Resources Committee on 15 December 2015 gave Members an update on the various significant changes that would impact on the Council's financial position following announcements made since the General Election in May 2015 and the Autumn Statement in November 2015. Particular issues highlighted, relevant to the General Fund, included the phasing out of the Revenue Support Grant, changes to the New Homes Bonus & the Business Rates Retention schemes and the creation of Combined Authorities.

The fundamental principles of the Council's MTFP are to:

- (i) Maintain a sustainable financial position against a background of unprecedented financial uncertainty and reduced government funding, including the delivery of efficiency targets.
- (ii) Support the vision of our Borough through appropriate identification of resources required to deliver the key priorities outlined in the 'Vision for Brentwood'.
- (iii) Maximise opportunities and mitigate risks associated with the fundamental change to the way in which local government is financed.

1.2 This report considers:

- (i) The General Fund budget proposals for 2016/17 to 2018/19.
- (ii) The Capital Programme 2016/17 to 2018/19.
- (iii) The Treasury Management & Investment Strategy for 2016/17.

2. Recommendation(s)

That the Committee recommends to Council on 2 March 2016:

- 2.1 To approve the General Fund - Revised MTFP for 2016/17 as shown in Table 8 at paragraph 5.8 which includes the proposed savings targets as shown in Table 7 at paragraph 5.7 of this report.**
- 2.2 To approve the proposed Capital Programme and Funding totalling £23.7 million for 2016/17 to 2018/19 as set out in Tables 13 and 14 of this report.**
- 2.3 To approve the Treasury Management and Investment Strategy as set out in Section 10 of this report.**
- 2.4 To note the Section 151 Officer's Assurance Statement as set out in Section 11 of this report.**

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3. Vision for Brentwood 2016/2019

3.1 Vision for Brentwood is the main strategic planning document, providing a framework for the delivery of services for 2016/17 to 2018/19. It is a clear statement of the Councils' priorities for the next three years.

- **Environment and Housing Management** – We will find new ways of working with partners and embrace the support of communities, to enhance the cleanliness of our environment and maintain the attractiveness of our Borough. We will work to ensure our housing stock is managed so that it delivers comfortable and safe homes for our tenants that are efficient and sustainable.
- **Community and Health** – Brentwood is fortunate to benefit from a range of vibrant groups and organisations that enhance and support the local community. The Council will work with local businesses, community groups and the voluntary sector to ensure the future wellbeing of our Borough.
- **Economic Development** – Our superior locational advantage and entrepreneurial spirit means that Brentwood is fortunate to have a strong economic foundation. In partnership with key local and regional business organisations, we can harness that force to promote the Borough, encourage a mixed economy and support sustainable development.
- **Planning and Licensing** – A new Local Development Plan will shape the way our Borough will change over the next fifteen years. We will work hard to get the best outcome and achieve a good balance for residents and businesses in a way that celebrates Brentwood's unique history and quality of life; both within the Borough and influencing the outcome of regional developments that will affect Brentwood residents. Our licensing policies will regulate businesses to ensure public safety and minimize environmental nuisance caused by their activities.
- **Transformation** – Between 2016 and 2019 the way the Council looks and works will be transformed. We will continue the drive to make it easier for customers to access services and information, cut out bureaucracy that doesn't add value and make sure taxpayers' money is even more wisely spent. We will explore new income generating ideas and opportunities. We will have services delivered by those best placed to deliver excellence and value-for-money, whilst holding onto and enhancing our role, duties and powers as local council and community leader.

4 Budget 2016/17 and Medium Term Financial Plan to 2018/19

- 4.1 At its meeting on 15 December 2015, this Committee received information on initial funding and proposals for the MTFP. In accordance with the Budget and Policy Framework, these initial proposals were presented to Audit & Scrutiny Committee on 25 January 2016 for their consideration.
- 4.2 Attached at A is a copy of the report from Audit & Scrutiny Committee outlining their feedback on the initial proposals. The feedback has been considered in compiling the MTFP.
- 4.3 The information set out in this enclosure represents the financial expression of the Council's Vision for Brentwood Plan over the next three years based on a back drop of significant financial pressures.
- 4.4 The 2015/16 Quarter 3 budget monitoring has been used for the forecast outturn position and this has been reflected in the reserves position as at 31 March 2016 set out in this report. Any variation from this at the year end will be reported to Policy, Finance and Resources Committee in June 2016 with recommendations from the Section 151 Officer regarding any surplus or deficit balances.

Demographic Changes

- 4.5 Between 1991 and 2011, the population across Brentwood increased by 4.1%. This compares to an average increase of 10.7% across the whole of England.
- 4.6 According to the Office for National Statistics, the projection for 2011 – 2021 is that Brentwood will grow by a further 9.7% to give a projected population of 80,979 by 2021.
- 4.7 According to the Office for National Statistics, the unemployment rate in the UK fell to 5.2% over the three months to October 2015. This compares to an unemployment rate across Brentwood of 3.6%.
- 4.8 An analysis of the number of Housing Benefit (HB) and Council Tax Benefit (CTB)/Local Council Tax Support (LCTS) claimant numbers for Brentwood is shown in Table 1.

Table 1 – Number of Claimants for Brentwood for HB, CTB & LCTS

	March 2013	March 2014	March 2015	March 2016 est
Housing Benefit	3,292	3,184	3,024	2,916
Council Tax Benefit	4,260	-	-	-
Local Council Tax Support	-	3,987	3,751	3,585

2016/17 Provisional Local Government Finance Announcement

4.9 The Provisional Local Government Finance Settlement for 2016/17 was announced on 17 December 2016. This is a four year settlement with indicative figures provided until 2019/20. Key issues for Brentwood are outlined below:

- Although in real terms England is projected to have the same level of Core Spending Power by the end of the spending review (-0.5%) this is not the case for Brentwood.
- Brentwood has the 3rd largest fall in Core Spending Power in the country and the largest fall in Essex at -16.1%.
- The settlement assumes that there will be an increase in Council Tax year on year and does not include any additional taxation placed on local authorities and inflation.
- Other pressures such as the waste contract (£580k pressure), increasing levels of homeless and reductions in other grants are not reflected in the settlement.
- In 2016/17 the Council's Revenue Support Grant (RSG) will fall by 44% (£550k) and by 67% (£477k) year on year in 2017/18. This can be implied as negative RSG.
- By 2018/19 the Council will receive no RSG.
- By 2018/19 the Council will be required to make a contribution under the Tariff/Top up adjustment effectively reducing the Council's proportion of Retained Business Rates (£52k in 2018/19 and £370k in 2019/20).
- By the end of the Spending Review the Council's grant funding will have fallen 77% (£2.1m).

4.10 The funding announced as part of the Finance Settlement for 2016/17 is outlined in Table 2.

Table 2 – Government Funding

	2015/16	2016/17 Indicative	2017/18 Indicative	2018/19 Indicative	2019/20 Indicative
	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	1,263	710	233	Nil	Nil
Tariff/Top-Up adjustment	Nil	Nil	Nil	(52)	(370)
Council Tax Freeze Grant	58	Nil	Nil	Nil	Nil
TOTAL	1,321	710	233	(52)	(370)

- 4.11 The Council is part of the Essex Wide Pool for Business Rates in 2016/17. The pool consists of eleven Essex local authorities including Essex County Council, Essex Fire Authority and eight 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. For 2016/17 it is estimated that Brentwood's share of the levy savings will be £100k. With a Business Rates revaluation planned in 2017/18, the future of the Pool is uncertain. Therefore, no amount has been included beyond 2016/17.

Business Rates Retention

- 4.12 The Business Rates retention figure is now dependant on a proportion of what the Council actually collects. The estimated amount for 2016/17 is outlined in Table 3. It is assumed that we will retain a similar amount in future years.

Table 3 – Estimated Business Rates Retention

	2015/16	2016/17 Indicative	2017/18 Indicative	2018/19 Indicative	2019/20 Indicative
	£'000	£'000	£'000	£'000	£'000
Business Rates Retention	1,758	1,578	1,578	1,578	1,578

- 4.13 An on-going concern for the Council was the number of appeals lodged with the Valuation Office Agency. Whilst every effort to forecast the impact of these has been made, the success or failure of appeals is beyond the control of the Council. This has been an issue nationally and as a result of appeals the Council's Retained Business Rates are projected to fall in 2016/17, despite an increase in the businesses.

New Homes Bonus Grant

- 4.14 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 is payable for 6 years.
- 4.15 However, the Spending Review announced that the Government would consult on reforms to the New Homes Bonus, including ways to sharpen the incentive to reward communities for additional homes and release resources to help address pressures in adult social care services, with a preferred option for savings of at least £800 million to be returned to local government to support adult social care. This will occur from 2018/19 onwards.
- 4.16 For 2016/17, the Council is due to receive £1.623m in New Homes Bonus Grant. This is some £84k lower than originally anticipated. The profile of the Grant payments is outlined in Table 4:

Table 4 – New Homes Bonus Grant

	11/12	12/13	13/14	14/15	15/16	16/17 Est	17/18 Est	18/19 Est
	£'000	£'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	207
Yr 4				416	416	416	416	261
Yr 5					241	241	241	151
Yr 6						167	167	105
Yr 7							266	167
Yr 8								136
TOTAL	255	469	799	1,215	1,456	1,623	1,634	1,027

4.17 The New Homes Bonus Grant remains a flexible, non ringfenced fund for Local Authorities to spend as they deem appropriate. This could include:

- Re-investing in housing or infrastructure.
- Support for local services or facilities.
- General financial support to hold down Council Tax levels.

4.18 Since its introduction in 2011/12, the Council has used the New Homes Bonus Grant to support the General Fund Budget. For 2016/17, the Council will continue to treat the grant funding as general financial support.

Impact of the 2016/17 Local Government Finance Settlement

4.19 The impact of the Provisional Local Government Finance settlement is a significant reduction in funding for the Council to that assumed in the 15 December 2015 report to this Committee. This is outlined in Table 5.

Table 5 – Impact of the 2016/17 Provisional Local Government Finance Settlement

	2016/17 £'000	2017/18 £'000	2018/19 £'000
Formula Grant Reduction	141	368	453
New Homes Bonus Reduction	84	66	673
Business Rates Retention Reduction	176	176	176
Total Additional Reduction	401	610	1,302

4.20 As outlined in paragraph 4.13 the significant reduction relating to the Business Rates Retention is due to an increase of appeals.

5 General Fund Revenue Budget

Overall Revenue Forecast Position to 2018/19

- 5.1 The summary revenue budget and forecast to 2018/19 is outlined in Table 6. This shows the projections of current net expenditure, government support and the Collection Fund surplus.

Table 6 – Summary Revenue Budget & Forecast to 2018/19

	2015/16 Estimated Outturn £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Total General Fund Expenditure	10,075	11,439	11,502	11,705
Total Funding	(9,875)	(10,148)	(9,179)	(8,314)
Funding Gap	200	1,291	2,323	3,391
Working Balance b/fwd	4,511	3,961	2,370	(303)
Funding Gap	200	1,291	2,323	3,391
Earmarked for WHW	350	300	350	Nil
Working Balance c/fwd	3,961	2,370	(303)	(3,694)

- 5.2 The projected outturn for 2015/16 is an over spend of £200k (or 1.99% of net expenditure) which is £105k lower than what was reported to this Committee on 2 November 2015. The main reasons for this decrease is due to additional income for land charges and an increase in investment income as interest rates have been slightly higher than predicted.
- 5.3 Table 6 shows that from 2017/18, based on the financial pressures highlighted, if the Council continues with its current expenditure, there will be no working balances, to support it's spend.

Addressing the Funding Gap

- 5.4 The MTFP provides the framework with which the Council will achieve its aspirations. A balance has to be struck, as a consequence of the constraints on financial resources, between the pace of improvement and the affordability of proposals.

- 5.5 Whilst the Council will explore opportunities to identify and secure additional income with which to support services, it is clear that there is also the opportunity to balance its budget through the strict management of expenditure levels and securing efficiencies.
- 5.6 Services need to continue to drive through efficiencies and continually review their working practices and operations to try and make them as efficient as possible.
- 5.7 Savings Targets are proposed to bridge some of the funding gap as outlined in Table 7.

Table 7 – Proposed Savings Targets

Proposed Savings Targets	2016/17 £'000	2017/18 £'000	2018/19 £'000
Additional Income Generation Target	438	663	673
Efficiencies Target	514	618	618
Re-prioritisation of Services Target	154	219	219
Total Savings Target	1,106	1,500	1,510
Less: Allowance for a decrease in the recharge to the HRA	(100)	(140)	(140)
Grand Total	1,006	1,360	1,370

5.8 Table 8 shows that after allowing for all the items outlined in paragraphs 5.7, a gap still remains between planned expenditure and funding. The revised General Fund position for the MTFP is also outlined in Table 8.

Table 8 – General Fund - Revised MTFP

	2015/16 Estimated Outturn £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Total Net Forecast Spend	10,075	11,439	11,502	11,705
Total Funding	(9,875)	(10,148)	(9,179)	(8,314)
Funding Gap	200	1,291	2,323	3,391
Less: Net Savings Targets	N/A*	(1,006)	(1,360)	(1,370)
Net Funding Gap	200	285	963	2,021
Working Balance b/fwd	4,511	3,961	3,376	2,063
Funding Gap	200	285	963	2,021
Earmarked for WHW	350	300	350	Nil
Working Balance c/fwd	3,961	3,376	2,063	42

*For 2015/16 £570k of savings will be achieved.

5.9 Other key areas that are being developed are:

- Waste Strategy.
- Implementation of the Leisure and Recreation Strategy

5.10 Waste Services is one of the largest services delivered, both by Essex County Council (as the disposal authority) and by the Borough Council (as the waste collection authority). A cross-party Waste Strategy Group has been meeting since September 2015 and a number of decisions have been made through the Committee process to reduce the overall cost of the service. The Council, will also be implementing a bin pilot scheme in West Horndon, which will commence in April 2016.

5.11 The Council has produced a Leisure and Recreation Strategy (including a review of Open Spaces). The scope of this work included:

- A viable and deliverable model of sports facility stock (type/mix) that meets existing and anticipated future demand.
- A comprehensive assessment of the supply of and demand for outdoor playing pitches in Brentwood Borough.

- A clear understanding of the overall surpluses and deficiencies across the Borough and any specific geographical and/or individual facility needs.
 - Establishment of key principles to help inform where future resources should be focused.
 - Production of a strategy which is compliant with Sports England guidance.
- 5.12 Whilst it is not possible at this stage to quantify any savings/additional income, these will need to be a key outcome from the development of the Strategy. This is now being developed through a cross-party working group, and any saving arising in future years will be identified and reported through the appropriate Committees.
- 5.13 Officers will continue to work with the administration to identify other opportunities during the year to bridge the funding gap.

Working Balances and Reserves

- 5.14 Section 32 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their Council Tax Requirement.
- 5.15 The Section 151 Officer is responsible for providing advice so that decisions taken on reserves represent proper stewardship of public funds. Reserves should be set at a level at least sufficient to meet any unexpected increase in expenditure or shortfall in income in the ensuing year that cannot be met from within the approved budget. Any decision that fails to take into account his advice may require a report to be made to the Council under Section 114 of the Local Government Finance Act 1988.
- 5.16 Section 25 of the Local Government Act 2003 includes a duty on the Section 151 Officer to report, at the time the Council Tax is set, on the robustness of the budget calculations as well as the adequacy of the Council's reserves and other matters (see Section 11 'Section 151 Officer's Assurance').
- 5.17 The Act also provides an enabling power for the Secretary of State to specify a statutory minimum level of reserves (Section 26 of the 2003 Act). The level of reserves is also a factor the External Auditor will consider in appraising the Council's financial standing. In providing advice to the Council on the level of reserves, the Section 151 Officer has also had regard to professional guidance provided by CIPFA.
- 5.18 These safeguards are further reinforced through detailed scrutiny by our External Auditors, which includes a methodology to assess the financial performance and standing of the authority.
- 5.19 When reviewing medium term financial plans and preparing annual budgets, Members should consider the establishment and maintenance of reserves. These may be held for three main purposes:

- (i) As a working balance to help cushion the impact of unexpected budgetary pressures.
 - (ii) As a contingency to cushion the impact of significant unexpected events or emergencies – for example, the Contingency Reserve can be used only for specific purposes approved by full Council.
 - (iii) As a means of building up funds to meet known or predicted requirements and again to prevent significant fluctuations in net budget cost between years (earmarked reserves).
- 5.20 General Fund reserves consist of a number of earmarked reserves, together with an unallocated general reserve.
- 5.21 All reserves and balances form part of the General Fund but the Housing Revenue Account balance is specifically 'ring fenced' for use in connection with that account.
- 5.22 In addition to the cash-backed reserves described above, local authorities maintain a number of other reserves in the Balance Sheet. Some are required for statutory reasons and others reserves are required to comply with proper accounting practice. In either case these balances are not available for investment.
- 5.23 As part of the budget approved in March 2015, a minimum General Fund Working Balance of £2.2m was agreed. In accordance with best practice, an annual risk assessment is undertaken to check the level required for 2016/17. Revised calculations show that the assessed level should remain at £2.2million.
- 5.24 Although this report on adequacy of reserves is specific to 2016/17, the Council should bear in mind that adequacy should also be judged against longer-term plans.
- 5.25 The Council is currently predicting a significant funding gap every year with the General Fund Reserves depleted during 2018/19. Whilst it is not permissible or feasible for the Council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer term solution. Until the budgets for each year are balanced it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level at Paragraph 5.23.
- 5.26 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 2015 was around £2.6 million. A list of the Earmarked Reserves is attached as Appendix A.

6 Council Tax Base & Collection Rate

- 6.1 Under section 33 of the Local Government Finance Act 1992 (as amended) and supporting Regulations, the Council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed in the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.
- 6.2 The tax base is used in the calculation of the Council Tax Requirement, to produce the standard amount of Council Tax for a band D property, in relation to both the Borough and the major precepting authorities.
- 6.3 The calculation of the tax base has been amended to take account of the Local Council Tax Support (LCTS) Scheme. The replacement of Council Tax Benefit with LCTS effectively reduces the tax base as LCTS is provided as a discount against the Council Tax liability rather than a rebate which was previously repaid to the Council via Government Subsidy.
- 6.4 The impact of LCTS, has, in part, been offset by the approved changes to the discounts and exemptions awarded to empty homes. The resultant tax base for 2016/17 is 31,790 (agreed by Ordinary Council on 27 January 2016). This compares to a figure of 31,155.6 for 2015/16. An assumed growth of 0.5% has been included within the MTFP for future years.
- 6.5 The calculation of the Council Tax Base for a given year includes an assumption of the percentage of amounts due which are actually collected. The forecast collection rate has been assumed as 99% and has been incorporated within the Medium Term Financial Plan calculations.

7 Collection Fund

Council Tax

- 7.1 Following a calculation of the income and expenditure in the Collection Fund relating to Council Tax for this year, it is estimated that there will be an accumulated surplus of £1 million to be distributed in respect of Council Tax by 31 March 2016. Table 9 shows how this will be distributed.

Table 9 – Estimated Collection Fund Surplus Distribution

Authority	Amount £
Brentwood Borough Council	121,441
Essex County Council	734,261
Police and Crime Commissioner	99,422
Essex Fire Authority	44,876

- 7.2 The Council must take the amount of £121,441 into account when it sets its element of the Council Tax for 2016/17.
- 7.3 This transaction is covered by legislation. Since the Council Tax receipts collected have exceeded our forecast there is additional income. This has to be shared amongst all precepting authorities in accordance with their original precept value (for Brentwood Borough Council that equates to about 12%). This amount must then be included within the budget for 2016/17 to reduce our Council Tax Requirement for that year.

Retained Business Rates

- 7.4 It is estimated that there will be a surplus of £310k, with reduction of £182k for a levy payment. This is the figure that has been estimated in the NNDR1 submission to the government at the end of January 2016. This amount has been included within the budget for 2016/17 to reduce our Council Tax Requirement for that year.

8 Council Tax Referendum and Council Tax

- 8.1 As part of the 2011 Localism Act, Council Tax Capping in England has been abolished and replaced by new powers for residents to approve or veto excessive tax increases through a referendum. If the residents vote against the increase, the Council will have to revert to a Council Tax level that is compliant with the Government's proposed increase.
- 8.2 A Council Tax referendum principle of 2% will apply for 2016/17. This will apply to all principal Local Authorities, Police & Crime Commissioners and Fire & Rescue Authorities.
- 8.3 There are no equivalent limits proposed for Parish and Town Councils for 2016/17, although these may be introduced in future years to provide protection for local taxpayers. There is an implied level of funding within the Finance Settlement for Local Council Tax Support (LCTS) Schemes, and specifically to reflect reductions in parish tax base resulting from LCTS. The Council has already agreed to award grants to Parishes to ensure that the starting point for 2016/17 for each area is unaffected.
- 8.4 Members are reminded that the Provisional Local Government Settlement announced in December 2015 assumes that Councils will increase Council Tax levels. By increasing the Council Tax by the 1.99% and applying the same increase in future years the Council would be able to increase income as well as its budget base by:
- £106k in 2016/17
 - £216k in 2017/18
 - £329k in 2018/19

9 Capital Programme

- 9.1 This section considers the Capital Programme and supporting Strategy for the period 2016/17 to 2018/19.
- 9.2 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, for example, houses, vehicles or buildings. There is a clear distinction between capital expenditure and revenue expenditure with the latter relating to spend or investment on the day to day running of services.
- 9.3 The Capital Programme sets out the medium term investment proposals, together with the identified sources of funding. The Capital Programme supports the Capital Strategy which is aligned to the priorities of the Council.

Funding the Capital Programme

- 9.4 The key sources of funding for the Capital Programme are as follows:
- **Capital Receipts** – capital receipts arising from the sale of assets contribute to resources available to fund the Capital Programme. As there is a significant degree of uncertainty in the level and timing of the capital receipts, a pre-requisite for managing capital investment is that these are kept under close review to minimise the risk of possible exposure to unplanned borrowing with its potential adverse impact on revenue.
 - **Capital Grants** - the Council receives a variety of external funding, normally in the form of capital grants, which are either secured via a bidding process or are automatically allocated through Government departments or agencies for specific purposes.
 - **Leasing** – Local Authorities may fund capital expenditure by way of a finance lease, where all the risks and rewards of ownership are transferred to the lessee. Where appropriate, leasing is considered as a funding option and as with borrowing the revenue consequences need to be considered. It is important to ensure that there is adequate revenue budgetary provision to meet any future leasing liabilities. In addition the International Financial Reporting Requirements (IFRS) are such that most leases are classified as finance leases and therefore treated as capital expenditure.
 - **Prudential Borrowing** – the Council has freedom to undertake borrowing to finance capital expenditure so long as it is prudent, affordable and sustainable. The Council must consider and meet the whole costs associated with borrowing and be mindful that the interest charges in particular must be funded from the General Fund.

- **Section 106 Contributions** – under Section 106 of the Town and Country Planning Act Local Authorities are able to negotiate financial contributions from developers towards the cost of the provision of off-site infrastructure, facilities and/or services. These contributions need to be reasonably related to the development which is the subject of the planning application. Where applicable these will be applied to support capital investment.

Housing Revenue Account

- 9.5 In previous years 75% of proceeds from Right-to-Buy (RTB) sale of Council Dwellings were paid into a national pool run by the Department of Communities and Local Government (DCLG). The receipts were then redistributed to those authorities with the greatest housing needs as identified by regional housing boards. The remaining receipts were used to fund capital works in the authority.
- 9.6 On 2 April 2012, the pooling arrangement changed. Ministers confirmed delivering the new homes would be through Local Authorities retaining receipts to spend in their area.
- 9.7 Brentwood entered into an agreement with the Secretary of State for Communities and Local Government to retain the additional RTB receipts on 26th June 2012.
- 9.8 The key principles of the agreement are as follows:
- The Secretary of State agrees to allow the authority to retain additional RTB receipts to fund the provision of replacement stock.
 - The Secretary of State will allow the authority three years (from commencement of agreement) to invest the receipts before asking for the money to be returned if they have not been invested.
 - The agreement does not require a local authority to complete the building of a home within 3 years.
 - The agreement requires an authority to have incurred expenditure that is no more than 30% of the total spends on replacement stock.
 - Replacement could be one of 3 ways – newly built Council homes, acquiring houses on the open market or provision of grants to Housing Associations to build new homes.
 - Brentwood Council agrees to return any unused receipts to the Secretary of State with Interest.

9.9 A summary of the Retained Receipts for 2015/16 is outlined in Table 10.

Table 10 – Retained Receipts for 2015/16

2015/16	April to Jun	July to Sep	Oct to Dec	Jan to March	Total
Number of RTBs	2	1	1	1	5
Total Value (£'000)	198	183	233	200	814
Average Value (£'000)	99	183	233	200	715
Value of RTB Retained (£'000)	35	30	50	35	150
Expenditure required (£'000)	116	102	166	116	500
Date to be spent by	30/06/18	30/09/18	31/12/18	31/03/19	

9.10 The last quarter in 2015/16 is an estimated figure which is based on one sale that is likely to be completed before the end of the financial year. The current balance of retained receipts as at 31 March 2015 is £1,728,973.

9.11 A forecast of Retained Receipts is outlined in Table 11.

Table 11 – Retained Receipts Forecast

	2016/17	2017/18	2018/19	2019/20
Sales	5	5	5	5
Projected Income (£'000)	880	880	880	880
Projected Retained (£'000)	150	150	150	150
Expenditure required (£'000)	500	500	500	500

9.12 It is assumed that sales will begin to flat-line from 2016/17; therefore, an estimate of 5 RTB sales per year has been incorporated.

9.13 The Business Plan also assumes that the 70% additional costs will come from the HRA earmarked reserve. However, there is the possibility of using Section 106 Contributions which have the provision of Affordable Homes as part of the conditions.

Capital Programme – Projected Outturn 2015/16

9.14 Table 12 below shows the projected spend on the Capital Programme for 2015/16:

Table 12 – Capital Programme 2015/16 – Projected Outturn

DESCRIPTION	2015/16 ORIGINAL ESTIMATE £'000	2015/16 CURRENT ESTIMATE £'000	2015/16 ESTIMATED OUTTURN £'000
Street Scene and Environment	200	370	220
Localism	88	1,353	1,273
A Prosperous Borough	1,470	2,163	361
Housing, Health and Wellbeing	4,845	6,431	4,060
A Safe Borough	105	301	267
A Modern Council	2,883	3,973	409
TOTAL EXPENDITURE ON CORPORATE PRIORITIES	9,591	14,591	6,590
Funded by:			
Capital Receipts	2,918	3,450	1,196
Borrowing	2,485	5,291	-
Government Grants	120	120	120
Housing Revenue Account Business Plan	4,068	2,184	2,267
Contributions from Revenue Section 106	-	1,885	1,346
Retained HRA Receipts	-	1,195	1,195
	-	466	466
TOTAL FUNDING	9,591	14,591	6,590

9.15 The Current Estimate includes slippage of £3.635m from 2014/15 and £1.365m of new schemes agreed during 2015/16.

9.16 The key variances for the projected outturn are as follows:

- HRA Decent Homes Scheme (£2m) – A revised programme of works is being carried out in 2015/16 and any future works will be informed by a Stock Condition Survey which is due to be carried out in 2016/17.
- Town Hall (£3.5m) – this project has been reviewed as part of the Town Hall hub project.
- Improvements and Parking Scheme at Brentwood and Shenfield (£1.6m) – this is part of the Crossrail works and a temporary cost effective alternative parking was identified in 2015/16.

- Upgrade the Multi-Storey Car Park (£215k) – the second phase of this project will be completed in 2016/17.
- 9.17 The Capital Programme for 2015/16 required borrowing as it was based on an assumed higher level of spend. As the estimated outturn is at a lower level, the funding of the capital spend will be met from a combination of Capital Receipts, Government Grants and the HRA Business Plan.
- 9.18 The Policy, Finance and Resource Committee (dated 15 December 2015) preliminarily agreed the new and existing capital proposals.
- 9.19 Table 13 outlines the investment proposals for 2016/17 to 2018/19. The existing schemes include projected carry forwards from the 2015/16 Capital Programme for schemes where expenditure will slip into 2016/17.

Table 13 – Capital Programme 2016/17 to 2018/19 – Existing & New Proposals

	2016/17	2017/18	2018/19
	£'000	£'000	£'000
Existing Schemes:			
HRA Decent Homes Schemes	2,606	3,000	3,000
New Homes Build (HRA)	2,154	2,547	436
Town Hall Remodelling	1,000	2,489	-
Upgrade the Multi Storey Car Park	930	-	-
Parking Scheme at Brentwood & Shenfield	600	1,000	-
Disabled Facilities Grant	250	250	250
Vehicle & Plant Replacement Programme	150	150	-
Play Area Refurbishments	100	100	-
ICT Strategy	100	100	100
Home Repair Assistance Grant	30	30	30
Renaissance Group	25	-	-
Car Park Refurbishment & Upgrade	25	-	-
CCTV System Upgrade	5	5	5
TOTAL EXISTING SCHEMES	7,975	9,671	3,821

Table 13 - cont

	2016/17	2017/18	2018/19
	£'000	£'000	£'000
New Schemes:			
Vehicle & Plant Replacement Programme	600	600	175
Car Park Improvements	200	100	-
Leisure Strategy	100	100	-
Asset Improvements	100	100	100
Parking Bays at Woodman Road Cemetery	25	-	-
Cemetery Headstones	20	20	20
TOTAL NEW SCHEMES	1,045	920	295
TOTAL CAPITAL PROGRAMME	9,020	10,591	4,116

9.20 The Council will continue its investment in its Housing Stock (estimated at over £8 million over the next 3 years).

9.21 Assuming all of the proposals are approved, the total investment for the three year programme will be £23.7 million and the funding sources are outlined in the Table 14.

Table 14- Capital Programme 2016/17 to 2018/19 – Funding Sources

SOURCE OF FUNDING	£'000
Capital Receipts	7,147
Grants	360
Revenue Contributions	5,394
HRA Business Plan	6,955
Borrowing (internal)	3,871
TOTAL	23,727

- 9.22 Plans for capital investment are used to develop the Capital Programme. The programme is driven by the need to get maximum value for money from the Council's assets by making sure that they are well maintained and where possible providing a revenue return. The Council can borrow to fund its capital expenditure and with interest rates at historically low levels, this is a potentially viable option. However, where possible the Council will continue its policy of using 'internal' borrowing as outlined in paragraph 10.12.
- 9.23 The proposals above exclude any property acquisitions/developments where a business case can demonstrate that a capital investment can be converted to a revenue income stream. The Council currently has sufficient headroom to allow for borrowing of this nature, but each case would be the subject of a report and business case to Assets and Enterprise Committee.

10 Treasury Management & Investment Strategy

Introduction

10.1 This section deals with the Treasury Management Strategy for 2016/17 including the associated Prudential Indicators and the Minimum Revenue Provision Policy.

Definition of Treasury Management

10.2 CIPFA defines treasury management as:-

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

10.3 The Council is required to receive and approve the following documents:-

- a) An Annual Treasury Strategy (this document) - this sets out the Council’s approach to managing its investments and borrowings over the year ahead.
- b) A mid year review of treasury activity - this updates Members on Treasury Management performance for the first half of the financial year.
- c) An annual report on treasury activity - this details the treasury activity and performance for the full year.

10.4 The Council uses Capita Asset Services (CAS) as its external Treasury Management Advisor and much of the content of this report closely follows their advice. The Council recognises, however, that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers.

Interest rate forecasts and economic commentary

10.5 CAS’s interest rate forecasts are set out in paragraph 10.28 of this report. This shows a gradual rise in forecast base rates over the next few years, reaching 2% by September 2018, with a corresponding rise in PWLB borrowing rates.

10.6 Paragraph 10.29 to 10.32 also contains an economic commentary, which provides a context for their interest rate forecasts.

Borrowing Strategy

Current borrowing position

- 10.7 The Council has borrowings of £66.166m, mostly represented by the £64.166m debt taken on in March 2012, when the Council “bought itself out” of the HRA subsidy system under the Government’s HRA reforms. The first tranche of this debt (£5m) will mature in March 2017, with the remaining debt maturing between then and March 2042. These are shown in Table 15.

Table 15 – Current Borrowing Position

Start date	Repayment date	Interest rate	Amount £'000
<u>HRA Self Financing Loans (March 2012)</u>			
28/03/2012	28/03/2017	1.24%	5,000
28/03/2012	28/03/2022	2.40%	5,000
28/03/2012	28/03/2027	3.01%	10,000
28/03/2012	28/03/2032	3.30%	15,000
28/03/2012	28/03/2037	3.44%	15,000
28/03/2012	28/03/2042	3.50%	14,166
Sub total			64,166
<u>General Fund Loans</u>			
30/04/1995	30/04 2055	8.88%	800
24/04/1995	24/02/2055	8.88%	800
08/01/2003	08/01/2028	4.88%	400
Sub total			2,000
Total			66,166

Debt rescheduling

- 10.8 Officers do not propose rescheduling of this debt during 2016/17 as it is unlikely that there will be any opportunities for savings due to:
- The relatively low average interest rate for the current debt (3.25%).
 - The cost associated with early debt repayment from early repayment premiums.
- 10.9 The position will be kept under review and any changes to this view will be reported to Members as it arises.

New borrowing

- 10.10 In common with other authorities, the Council undertakes borrowing to fund its Capital Programme and to fund short term liquidity needs.
- 10.11 The Capital Programme set out on in Table 13 assumes the following new borrowing requirement:
- 2016/17 Nil
 - 2017/18 £3.411m
 - 2018/19 £0.460m

All of this borrowing is for General Fund expenditure. HRA expenditure will be fully financed from capital receipts and other resources.

- 10.12 The Council's current policy is to fund any new borrowing requirement from "internal borrowing", i.e. use of the Council's cash resources, rather than borrowing from external sources. This is a more economic option than external borrowing in the current, low-interest environment. This policy will be kept under review to avoid incurring higher borrowing costs in later years, when the Council may not be able to avoid new borrowing to fund new capital expenditure and/or to refinance maturing debt.
- 10.13 No short term borrowing needs are forecast for 2016/17 as it is anticipated that the Council will have sufficient liquid resources to fund its cash-flow needs.

Policy on borrowing in advance of need

- 10.14 Any external borrowing by the Council will not be in excess of or in advance of its needs purely to profit from the investment of the additional sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Capital and Treasury Prudential Indicators

- 10.15 There are a number of capital and treasury prudential indicators that the Council is required to approve under the Local Government Act 2003. These are set out in paragraphs 10.16 to 10.27.

Capital Prudential Indicators

10.16 Capital Expenditure. This prudential indicator is a summary of the Council's capital expenditure plans and financing.

Table 16 – Capital Expenditure & Financing Summary

	2015/16 Estimated outturn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
General Fund	2,660	4,260	5,044	680
HRA	3,930	4,760	5,547	3,436
Total capital expenditure	6,590	9,020	10,591	4,116
Financed by:				
Capital receipts	(1,662)	(4,787)	(2,130)	(230)
Revenue contributions	(1,346)	(1,795)	(2,612)	(987)
Government grants	(120)	(120)	(120)	(120)
S106 agreements	(1,195)	0	0	0
HRA business plan	(2,267)	(2,318)	(2,319)	(2,318)
Borrowing	0	0	(3,410)	(461)
Total Financing	(6,590)	(9,020)	(10,591)	(4,116)

10.17 Capital Financing Requirement (CFR). This measures the Council's underlying need to borrow. Members are asked to approve the following CFR projections.

Table 17 – Capital Financing Projections

	2015/16 Estimated outturn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
General fund	7,924	7,924	11,335	11,700
HRA	66,847	65,347	63,847	62,348
Total CFR	74,771	73,271	75,182	74,048
Increase/(decrease) in CFR	(1,516)	(1,500)	1,911	(1,134)
Represented by:-				
New external borrowing	0	0	3,411	461
Finance lease repayment	(16)	0	0	0
Debt repayment provision	(1,500)	(1,500)	(1,500)	(1,595)
	(1,516)	(1,500)	1,911	(1,134)

- 10.18 Gross External Borrowing and the Capital Financing Requirement. This indicator compares the Council's gross external borrowing against its CFR. It highlights the fact that the Council is currently maintaining a under-borrowed position, i.e. the amount of borrowing required to fund capital expenditure is more than the amount of external borrowing taken out.

Table 18 – Comparison between Gross External Borrowing & CFR

	2015/16 Estimated outturn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
CFR	74,771	73,271	75,182	74,048
Gross external borrowing	66,166	61,166	64,577	65,038
Under borrowing	8,605	12,105	10,605	9,010

The under- borrowing represents the use in previous years of the Council's own cash balances to fund capital expenditure. There are no immediate plans to "externalise" this internal borrowing, i.e. by taking out new external loans. This, however, will be kept under review.

Affordability Prudential Indicators

- 10.19 Ratio of Financing Costs to Net Revenue Stream. This indicator identifies the trend in net borrowing and other long-term obligation costs against the Council's net revenue stream.

Table 19 - Ratio of Financing Costs to Net Revenue Stream

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
General Fund	1.19%	1.14%	1.16%	2.38%
HRA	16.28%	16.83%	16.44%	16.62%

The relatively high HRA costs represent the interest costs paid by the HRA since 2012 in place of payments into the National Subsidy System, as a result of HRA Reform.

- 10.20 Incremental Impact of Capital Investment Decisions upon Council Tax and HRA weekly rents. This indicator identifies the revenue costs associated with the proposed changes to the three year Capital Programme on Council Tax and Housing Rents.

Table 20 - Incremental Impact of Capital Investment Decisions on Council Tax and HRA weekly rents

	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Incremental impact on:-				
Band D Council Tax	£0.00	£0.00	£0.00	£3.44
HRA weekly rent	£0.00	£0.00	£0.00	£0.00

- 10.21 The increase in Band D Council Tax is due to the interest and principal repayment costs of the proposed external borrowing.
- 10.22 As the HRA capital expenditure is expected to be fully funded from grants, revenue contributions and capital receipts the impact upon weekly rents is calculated at nil.
- 10.23 Operational Boundary for External Debt. This is the limit beyond which external debt would not normally be expected to rise. From 2016/17 this has been set at the CFR plus an allowance of £2m to allow for any unexpected short term borrowing needs.

Table 21 - Operational boundary for external debt

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Capital Financing Requirement		73,271	75,482	74,548
Short term borrowing needs		2,000	2,000	2,000
Total operational boundary	87,000	75,271	77,482	76,548

- 10.24 Authorised Limit for External Debt. This is the maximum level of borrowing that the Council is permitted to hold. It has been calculated as the operational boundary plus a further allowance of £3m for new long-term liabilities.

Table 22 - Authorised Limit for External Debt

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Operational boundary		75,271	77,482	79,548
Long term liabilities		3,000	3,000	3,000
Total authorised limit	90,000	78,271	80,482	82,548

Treasury Prudential Indicators

- 10.25 The purpose of these three indicators is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.
- 10.26 Upper Limits on Interest Rate Exposures. These identify a maximum limit for fixed and variable interest rates based on the debt position net of investments.

Table 23 - Upper Limits on Interest Rate Exposures

	2015/16	2016/17	2017/18	2017/18
Fixed interest rates	100%	100%	100%	100%
Variable interest rates	20%	20%	20%	20%

- 10.27 Maturity Structure of Borrowing. The purpose of this indicator is to reduce the Council's exposure to large amounts of debt falling due.

Table 24 - Maturity Structure of Borrowing

	Lower Limit	Upper Limit
Under 12 months	0%	20%
12 months and within 24 months	0%	20%
24 month and 5 years	0%	20%
5 year and within 10 years	0%	20%
10 years and above	0%	100%

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Interest rates view and economic commentary

- 10.28 Table 25 sets out CAS's view on base rates and PWLB borrowing rates.

Table 25 – CAS's Base Rates & PWLB Borrowing Rates

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

Economic Commentary

- 10.29 **UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3.
- 10.30 The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand, as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.
- 10.31 The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.
- 10.32 There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the Monetary Policy Committee (MPC) will decide to make a start on increasing Bank Rate.

Minimum Revenue Provision Policy

- 10.33 The Council is required to charge an element of the accumulated General Fund capital spend each year (measured through the CFR) to revenue (the minimum revenue provision or “MRP”), although it is allowed to make additional voluntary payments if required (voluntary revenue provision – “VRP”).
- 10.34 The DCLG Regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, so long as there is prudent provision.

- 10.35 Former DCLG regulations can be used to calculate MRP on capital expenditure incurred before 1st April 2008. These regulations allow for a number of adjustments to be made to both the CFR amount upon which MRP is to be calculated and the resulting MRP amount. For Brentwood these adjustments result in an MRP of nil. In addition to the above calculation, it is also necessary to calculate a MRP for finance leases. Finance leases are akin to borrowing, and the borrowing liability is reduced, over the asset life, by repayments each year. Regulations allow for such repayments to be used as a proxy for MRP.
- 10.36 There is currently no MRP charge required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact on the HRA budget, regulations allow the Major Repairs Allowance (MRA) to be used as a proxy for depreciation for the first five years, which will neutralise any revenue impact. The HRA business plan will need to fund this depreciation over the life of the assets.
- 10.37 To reflect the above the Council is recommended to approve the following MRP policy:
- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be to use existing practice which is that outlined in former DCLG regulations (Option 1).
 - For all unsupported borrowing (including finance leases) from 1 April 2008 the MRP policy will be to use the asset life method (Option 3).

Investment Strategy

Investment Guidance

- 10.38 The Council's investment policy has regard to The Department for Communities and Local Government (DCLG) Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Investment Principles

- 10.39 The primary investment priorities of the Council are:
- a) The security of its capital (i.e. protecting the capital sum from loss).
 - b) Liquidity of its investments (i.e. keeping funds readily available for expenditure when needed).
- 10.40 Provided that proper levels of security and liquidity are achieved, it may then be reasonable to seek the highest investment returns consistent with these priorities.

Investment instruments and limits

10.41 All investments will be transacted in UK Sterling.

10.42 Table 26 summarises the investment instruments that the Council proposes to use during 2016/17, and the respective credit rating, value and durational limits that will apply.

Table 26 – Proposed Investment Instruments

Investment instrument	Security/minimum credit ratings	Maximum value of investment	Maximum duration of investment
Current accounts, notice accounts or term deposits with UK banks	Short term F1, Long term A (or equivalent)	£4m per bank	364 days
Term deposits with banks part nationalised by the UK Government (currently Royal Bank of Scotland & NatWest)	Minimum credit ratings not required as long as these banks continue to be part nationalised	£4m per bank	364 days
Term Deposits with UK Building Societies	Short term F1, Long term A (or equivalent) or assets in excess of £1bn	£4m per Building Society	364 days
The Council's Banker (Lloyds Bank Plc), if not meeting the criteria for UK Banks		£4m	Overnight
Debt Management Account Deposit Facility (DMADF)	The Debt Management Office is an agency of the UK Government	Unlimited	6 months (DMADF imposed time limit)
Term Deposits with UK Local Authorities		£4m per local authority	364 days
New Investment Instruments			
Money Market Funds	AAA (minimum of two ratings)	£4m	N/a (repayable on demand)
Treasury Bills issued by the UK Government	The Debt Management Office is an agency of the UK Government	Unlimited	364 days
Certificates of Deposit issued by UK institutions	Short term F1, Long term A (or equivalent)	£4m per institution	364 days

New Investment Instruments

- 10.43 The Council is in the process of joining a money market fund platform, provided by SunGard. Money market funds are collective investment schemes offering instant access, which are widely used by other local authorities. This platform was recommended to the Council by CAS. It is anticipated that the Council will start to make use of this platform in 2016/17 as an alternative to placing funds on call or short term deposit with banks.
- 10.44 In addition, the Council will use two other new types of investment instrument, both of which are also widely used by other local authorities.
- a) Treasury Bills: these are a short-dated form of Government debt issued by the Debt Management Office via a weekly tender. They offer a marginally better return than placing funds with a Debt Management Account Deposit Facility at no additional risk.
- b) Certificates of Deposit: these are a negotiable form of fixed deposit, issued by a number of UK banks and building societies. The advantage of using them is that they offer access to some institutions who do not accept fixed term deposits from local authorities, which would enable the Council to achieve greater diversification in its spread of investments.

Counterparty list

- 10.45 Table 27 lists the banks and building societies that currently meet the criteria set out on the Table 26:

Table 27 Counterparty List

Banks

Abbey National Treasury Services Plc
Bank of Scotland Plc
Close Brothers Ltd
Goldman Sachs International Bank
HSBC Plc
Lloyds Bank Plc
Santander UK Plc
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation Europe Ltd
UBS Ltd

Part Nationalised Banks

Royal Bank of Scotland Plc
National Westminster Bank Plc

Building Societies

Nationwide Building Society
Coventry Building Society

It should be noted that this list is dynamic and subject to change as credit ratings move up and down.

Creditworthiness

- 10.46 The credit quality of counterparties and investment schemes will be determined mainly by reference to credit ratings issued by Fitch, Moody's and Standard & Poor's. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits.
- 10.47 Credit rating information is supplied by CAS on all active counterparties that comply with the minimum criteria. Any counterparty failing to meet the criteria would be removed from the counterparty list. Any rating changes and notifications of likely or possible ratings changes are provided to officers almost immediately after they occur, and this information is considered before dealing.
- 10.48 The credit rating information supplied by CAS includes a recommended maximum duration of investments with each counterparty. These recommended maximum limits will be adhered to, up to overall maximum limits of either 6 months or 364 days, depending on the type of investment.

Changes in credit rating methodology

- 10.49 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.
- 10.50 In keeping with the agencies' new methodologies, the rating element of CAS's credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to CAS's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

- 10.51 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.
- 10.52 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

Maximum value of investments

- 10.53 Table 26 contains a standard maximum limit per institution of £4m. This is a change to previous year's strategies, which set out varying monetary limits (e.g. £4m) for each individual institution. This monetary limit represents approximately 25% of the Council's average investment portfolio, and is considered to be a prudent limit.

Specified and not specified investments

- 10.54 Specified investments are high security, high liquidity investments in sterling with high credit quality and a maturity of no more than 364 days. All of the instruments identified in paragraphs 10.42 meet the definition of specified instruments.
- 10.55 Non specified investments are any other type of investments, one of their characteristics being that their duration is over 364 days, which is in excess of the Council's maximum duration limited of 364 days. The Council will therefore not use non specified investments during 2016/17.

Investment Strategy

- 10.56 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

10.57 The Bank of England Base Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 1.00%
- 2017/18 1.75%
- 2018/19 2.00%

10.58 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2016/17 0.90%
- 2017/18 1.50%
- 2018/19 2.00%
- 2019/20 2.25%

10.59 A schedule of the investments held by the Council as at 31 January 2016 is shown in Table 28.

Table 28 – Schedule of Investments as at 31 January 2016

Date Invested	Date to be Repaid	Invested With	Investment Amount £'000	Interest Rate
11/08/15	11/02/16	Coventry Building Society	1,000	0.60%
02/11/15	02/03/16	Coventry Building Society	1,000	0.50%
01/10/15	01/04/16	Coventry Building Society	1,000	0.60%
31/07/15	29/02/16	Lancashire County Council	2,000	0.45%
01/12/15	01/12/16	Lloyds Bank	1,000	1.05%
04/01/16	04/01/17	Lloyds Bank	1,000	1.05%
01/04/15	01/02/16	Nationwide	2,000	0.82%
01/09/15	01/03/16	Nationwide	2,000	0.66%
07/08/15	08/02/16	Newcastle City Council	2,000	0.35%
04/01/16	03/01/17	Santander	1,000	0.98%
22/01/16	N/A	Bank of Scotland	620	0.40%
27/01/16	N/A	Bank of Scotland	200	0.40%
22/12/15	N/A	Royal Bank of Scotland	22	0.25%
04/01/16	N/A	Royal Bank of Scotland	500	0.25%
27/01/16	N/A	Royal Bank of Scotland	1,200	0.25%
08/01/16	N/A	Santander	1,000	0.90%
TOTAL			17,542	

11 Section 151 Officer's Assurance

- 11.1 Section 25 of the Local Government Act 2003 requires that, when the Council is considering next year's budget and Council Tax levels, the Council's Section 151 Officer (the Director of Strategy and Corporate Services) must report on:
- The robustness of the estimates, and
 - The adequacy of the proposed financial reserves.
- 11.2 The estimates are considered to be robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and fees and charges income.
- 11.3 Net saving proposals of £1,006k have been anticipated for 2016/17 meaning that a sum of £285k will be required from the General Fund Working Balances in order to ensure that the Council has a balanced budget position. This is only acceptable because the impact of this does not breach my recommended £2.2 million minimum level in 2016/17. However, given that there are major funding pressures beyond 2016/17, further work will need to be undertaken to ensure the financial viability of the Council beyond 2016/17.
- 11.4 Potential risks in respect of the budget and their estimated impact on the projections have been undertaken and have been used to inform the levels of reserves required.
- 11.5 A list of the Council's Earmarked Reserves is attached at Appendix B. The levels of reserves are considered to be adequate to fund the planned expenditure identified by the Council.
- 11.6 Deciding how and when to utilise the General Fund Working Balance and Earmarked Reserves is a matter to be determined locally depending on the priorities of the Council. However, it is my opinion that there is a requirement for maintaining the current reserve levels and a minimum working balance at £2.2 million during 2016/17. This will continue to be kept under review.

12 Council Tax Requirement 2016/17

- 12.1 The full Council Tax resolution will be included within a separate report to Full Council on 2 March 2016.

13 Reasons for Recommendation

- 13.1 The Council is required to approve the Budget as part of the Budget and Policy Framework.

14 Implications

Financial Implications

Name & Title: Ramesh Prashar, Financial Services Manager.

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

Legal Implications

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- 14.2 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.
- 14.3 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.

15 Appendices to this report

Appendix A – Audit and Scrutiny Committee Feedback

Appendix B – Earmarked Reserves

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