27 February 2019

Ordinary Council

Medium Term Financial Plan 2019/20 – 2021/22

Report of: *Jacqueline Van Mellaerts, Interim Chief Finance Officer*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

1.1 The Draft Medium-Term Financial Plan (MTFP) was considered by Policy, Projects and Resources Committee on 20 November 2018, which gave Members an update on the various significant changes that would impact on the Council's financial position.

1.2 The Final Medium-Term Financial Plan (MTFP) was considered by Policy, Projects and Resources Committee on 5 February 2019 and has been recommended to Ordinary Council for consideration and approval.

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.

1.3 This report considers:

(i) The General Fund budget proposals for 2019/20 to 2021/22.

(ii) The Housing Revenue Account (HRA) budget proposals for 2019/20 onwards.

(iii) The Capital Programme 2019/20 to 2021/22.

(iv) The Treasury Management Strategy for 2019/20.

(v) Section 151 Officers Assurance Statement.

2. Recommendations

General Fund:
To approve the General Fund - Revised MTFP for 2019/20 as shown in Table 9 which includes the proposed policy initiatives, presenting £185k Funding Gap for 2019/20, to be funded from working balances.

Housing Revenue Account (HRA)

2.1 To approve the HRA Business Plan for 2019/20 and beyond as shown in Appendix C of this report.

2.2 To approve a 1% decrease in rents for 2019/20 and to note rents will increase by CPI plus 1% from 2020/21.

2.3 To recommend to apply the formula rent to all new tenancies from April 2019/20.

Capital programme

2.4 To approve the Existing and New Schemes of the proposed Capital Programme for 2019/20 to 2021/22 as set out in Table 19 of this report.

Treasury Strategy

2.5 To approve the Treasury Management Strategy as set out in Section 12 of this report.

Section 151 Officer's Assurance Statement

2.6 To note the Section 151 Officer's Assurance Statement as set out in Section 13 of this report.

Council Tax 2019/20

2.7 To approve a Council Tax increase of 2.99% (Band D of £188.63) for 2019/20.

3. Introduction and Background

3.1 The financial pressures that face Local Government are well known. Despite these pressures however, the Council remains committed to both the maintenance of service delivery and continuing to improve community outcomes that enhance the quality of life for the residents of Brentwood.

3.2 The challenges that Brentwood face, from a finance perspective, are clearly shown in “**Table 1 – Financial Position Statement”**
This table indicates the following results:-

- Table 1A – Summary of funding position reported 2 March 2016
- Table 1B – Summary of funding position reported 1 March 2017.
- Table 1C – Summary of funding position reported 2018.
- Table 1D - Summary of funding position in this report.

3.3 The Council is not unique in having to manage a period of uncertainty, this is even more important when one considers the current situation surrounding BREXIT. That said the Council remains resolute in its wish to:

a) Continue to provide services of the highest quality.
b) Be innovative in the way it delivers services.
c) Always place the community at the heart of its service offering.
d) Always consider how to protect the needy and vulnerable in our society.
e) Provide a system of local government which is accountable and responsive to the challenges which the community in Brentwood could face.

3.4 The economic challenges which we face are being addressed by the Council. The work accomplished over the last few years has laid a foundation which should provide for a more certain future. 2019/20 will see a period of great delivery, amongst which will be:

i. The Return to the Town Hall, which is not just the return to a building, but a place where residents can live (through 19 apartments), the creation of a community hub (offering many services), and an environment where business can flourish, and the return to a Town Hall where Council business can function in a manner appropriate to the time.
ii. The creation of our joint venture with a partner where a significant value of the Councils land assets, will allow the Council to not only generate income but to benefit the community
iii. The Local Development Plan (LDP) is advancing rapidly and if agreed by government inspectors, will form the basis of much needed housing, business and other environments to create an area which will be much desired

iv. Plans to significantly advance play areas and sports areas will allow residents access to improved leisure facilities.

v. The completion of work done on the Multi Story Car Park, continues the theme of improving facilities within our town centre

3.5 A comparison of the working balances In Table 1 for the four years (2017/2018: 2018/2019: 2019/20: 2020/21) show the positive result of the Council's ability to turn around what is an unprecedented period in the financial life of Brentwood Borough Council.

3.6 The evidence of strong financial management can be seen in Table 1 of this report. In March 2016, the Council was looking at a working balance for 2018/19 of a negative £3.6million. Work undertaken since March 2016, means that we are expecting to be delivering a working balance at the end of 2018/19 of £3.3million. An improvement of £6.9million. Most importantly our services continue to be improved, examples of this are:

a. The Planning, Development Management, department is now ranked 6th in the UK, and 1st in Essex.

b. Our Environmental Health Department is ranked in the top 6, nationally

c. The Council continues to be recognised as forward thinking and innovative, as witnessed by the number of rewards it has received from the business (Essex Business awards and Brentwood Chamber of Commerce)

3.7 The Council will continue to strive to introduce projects (many of which have commenced) to improve further the financial position of the Council. The Council still works towards achieving a more robust financial position as it moves forwards to self-financing by adapting to changes in circumstances and making adjustments which are necessary.

Table 1 – Financial Position Statement

Table 1A – Summary of funding position reported 2 March 2016.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Funding Gap	1,291	2,323	3,391	-	-	-
Working Balance c/fwd	2,370	(303)	(3,694)	-	-	-

Table 1B – Summary of funding position reported 1 March 2017.

	2016/17 Estimated Outturn £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Funding Gap	285	283	1,537	2,044	-	-
Working Balance c/fwd	3,380	2,629	1,021	(1,023)	-	-

Table 1C – Summary of funding position reported 6 March 2018.

	2016/17 Outturn £'000	2017/18 Estimated Outturn £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Funding Gap	0	274	0	385	298	-
Working Balance c/fwd	3,742	3,118	3,118	2,733	2,435	-

Table 1D – Summary of funding position in this report.

	2016/17 £'000	2017/18 Outturn £'000	2018/19 Estimated Outturn £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Funding Gap	0	437	0	185	326	400
Working Balance c/fwd	3,742	3,305	3,305	3,120	2,794	2,394

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4. Vision for Brentwood 2016/2019

4.1 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 that the budget focuses on. The Budget for the coming year continues to be underpinned by these priorities until the Council's new Corporate Plan is in place for 2019/22.

- **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 continue to work in partnership with others and 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 minimise 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.

5. Budget 2019/20 and Medium Term Financial Plan to 2021/22

5.1 At its meeting on 20 November 2018, the Policy, Project and Resources Committee received information on initial funding and proposals for the MTFP. In accordance with the Budget and Policy Framework.

5.2 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.

5.3 The 2018/19 half yearly budget monitoring has been used for the forecast outturn position and this has been reflected in the reserves position as at 31 March 2019 set out in this report. Any variation from this at the year end will be reported to Policy, Projects and Resources Committee in June 2019 with recommendations from the Section 151 Officer regarding any surplus or deficit balances.

Demographic Changes

5.4 Between 2011 and 2017, the population across Brentwood increased by 4.0%.

5.5 According to the Office for National Statistics, the projection for 2017 to 2027, is that Brentwood will grow by a further 8.52% to give a projected population of 83,125 by 2027.

5.6 According to the Office for National Statistics, the unemployment rate in the UK was recorded at 4% for December 2018. This compares to an unemployment rate across Brentwood of 3.1%.

5.7 An analysis of the number of Housing Benefit (HB) and Local Council Tax Support (LCTS) claimant numbers for Brentwood is shown in Table 2.

Table 2 – Number of Claimants for Brentwood for HB & LCTS

	March 2016	March 2017	March 2018	March 2019 Estimate
Housing Benefit	2,919	2,859	2,480	2,130
Local Council Tax Support	3,522	3,479	3,245	3,110

5.8 We can see the number of claimants decreasing year on year. One factor in this decrease is the introduction of Universal Credit.

2019/20 Provisional Local Government Finance Announcement

5.9 The Provisional Local Government Finance Settlement for 2019/20 was announced on 13 December 2018.Key issues from the announcement are outlined below:

- The 2019/20 New Homes Bonus remains unchanged with the scheme only rewarding growth in homes above 0.4% per annum, this is due to £10m of additional Government funding having been added to the scheme for 2019/20.

- The £153m of Negative RSG for 2019/20 will be eliminated by the government. This will be funded through its share of business rates;

- There is a £180m balance on the national levy account, this will be distributed to authorities is 2019/20 based on need.

- In September 2018, the government invited authorities to bid for pilot status for 75% Business Rate Retention for 2019/20. 15 areas have been awarded the pilot scheme for 2019/20, which does not include Brentwood Council, as well as a London pilot.

- Two consultation papers were also published the first is on the Fair funding Review, a review of local authorities' relative needs and resources. This is a technical consultation on the assessment of local authorities' relative needs, resources and transitional arrangements. The other consultation paper is on Business Rates Retention Reform

- The Council Tax referendum limits for local authorities will remain as previously indicated in the 2018/19 provisional settlement, although for Police and Crime Commissioners the potential annual increase to their precept will be extended to £24 per annum.

Revenue Support Grant

5.10 As announced in December 2015, Revenue Support Grant (RSG) is to be phased out entirely by 2019/20. This will assess the main income streams available to local government and funding for Local Government will be revised from 2020/21 onwards. The RSG allocations previously announced at 2016/17 settlement are unchanged. Brentwood's allocation was as follows.

Table 3 – Government Funding

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	233	Nil	Nil
TOTAL	**233**	**0**	**0**

5.11 Originally, due to the approach taken in making the reductions to RSG, there was requirement for top up/tariff adjustments. This would have hit high tax base/high tax rate authorities. The 2018/19 settlement announcement removed the negative RSG for 2018/19, leaving only the adjusted amounts for 2019/20.

5.12 A consultation took place in 2018 regarding 'negative RSG'. The outcome of this consultation has fed into the 2019/20 local government finance settlement. And negative RSG of £370k has been removed in its entirety for 2019/20 and future years.

5.13 There has been no forecasts announced yet for years 2020/21 and beyond. As part of the Provisional settlement the government has published two technical papers regarding Fair Funding Review and Business Rate Retention. These consultations will run from 13th December 2018 to 21st February 2019 and will inform wider local government funding issues from 2020/21 onwards. Until the results of the consultation are received, it has been assumed that 2019/20 will also continue into 2020/21.

Fair Funding Review

5.14 The technical paper on the "Review of local authorities relative needs and resources", will consult on the assessment relative needs, relative resources and transitional arrangements for Local Government and the funding requirements.

5.15 The consultation outlines further proposals to simplify the assessment of local authorities needs by introducing a simple Foundation Formula alongside several 'service-specific' formulas.

5.16 The focus around fair funding is to look at the structure of the authority's need's assessment, the weighting between services, weighting of cost drivers, Area Cost Adjustments and future proofing the needs assessment.

5.17 Adjustments will be made to an authority's relative needs assessment to take account of resources available to the authority to fund local service such as Council Tax.

Business Rates Retention

5.18 The Business Rates retention figure represents the Council's share (40%) of the total amount collected from local businesses, less a tariff payment to central government. The estimated amount for 2018/19 and future year is outlined in Table 4.

Table 4 – Estimated Business Rates Retention

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Business Rates Retention	2,200	1,800	1,800	1,800

5.19 These amounts include a provision for losses resulting from any successful appeals by rate payers against the rateable value of their properties. Appeals are dealt with by the Valuation Office Agency and their success or failure is beyond the Council's control.

5.20 The decrease in Business Rates Retention from 2018/19 to 2019/20 onwards is mainly due to an emerging trend of offices being converted to flats. There have been several office conversions in Brentwood this year, resulting in a loss of business rates yield.

5.21 The second consultation paper published as part of the provisional settlement, is a technical consultation on "Sharing risk and reward, managing volatility and setting up the reformed system".

5.22 This consultation looks to reset the Business Rates baseline from 2020 and seeks views on setting up a new business rates retention system in order to set an accurate baseline.

5.23 The technical paper seeks to update the balance of risk and reward to better reflect the wider context for local authorities in 2020 regarding business rates. It suggests a future approach to resets that would smooth potential 'cliff edges' in income, proposes reforms to the levy that would allow more authorities to keep more of their business rates growth, and reaffirms the Government's commitment to a safety net to protect authorities from sudden reductions in income, to mitigate volatility in income and simplify the system.

5.24 The Council is part of the Essex wide Pool for Business Rates, the pool consists of eleven Essex local authorities including Essex County Council, Essex Fire Authority and nine Borough and District Councils, including Brentwood, as well as one unitary. By pooling, any levy payments that would have been made to Central Government in relation to Business Rates, growth can be saved and distributed to the members of the pool. No additional income has been budgeted for 2019/20 due to the uncertainty of the pool position, and any surplus/deficits are monitored in year.

New Homes Bonus Grant

5.25 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 was intended to be payable for 6 years.

5.26 The grant for 2018/19 onwards is based upon 4 years and the scheme will now also only reward growth in homes above 0.4% per annum.

5.27 The technical consultation published in September 2018, suggested there would be an increase to the deadweight for the 2019/20 “in-year” allocations. However, there has been no change to the deadweight, and this will remain at 0.4% for 2019/20, which is due to additional £18m being added to the funding of the scheme.

5.28 For 2019/20, the Council is due to receive £0.579m in New Homes Bonus Grant. The profile of the Grant payments is outlined in Table 5:

Table 5 – New Homes Bonus Grant

	11/12 £’000	12/13 £’000	13/14 £’000	14/15 £’000	15/16 £’000	16/17 £’000	17/18 £’000	18/19 £’000	19/20 Est £’000	20/21 Est £’000	21/22 Est £’000
Yr 1	255	255	255	255	255	255					
Yr 2		214	214	214	214	214					
Yr 3			330	330	330	330	330				
Yr 4				416	416	416	416				
Yr 5					241	241	241	241			
Yr 6						167	167	167	167		
Yr 7							1*	1	1	1	
Yr 8								1	1	1	1
Yr 9									409	409	409
TOTAL	**255**	**469**	**799**	**1,215**	**1,456**	**1,623**	**1,155**	**410**	**578**	**411**	**410**

* This figure has been reduced as a result of the top slicing decision announced in December 2016, to fund social care authorities

5.29 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.

5.30 Since its introduction in 2011/12, the Council has used the New Homes Bonus Grant to support the General Fund Budget. For 2019/20, the Council will continue to treat the grant funding as general financial support.

Total Government Funding

5.31 A table summarising the Medium-Term Financial Plan’s Total Government funding arising from the Local Government Finance Settlement since 2015/16 and Business Rates is shown in Table 6

Table 6 – Summary of Government Funding

	2016/17 Actual £'000	2017/18 Actual £'000	2018/19 Actual £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Revenue Support Grant	710	233	Nil	Nil	Nil	Nil
Tariff-Top Up Adjustment	Nil	Nil	Nil	Nil	Nil	Nil
News Homes Bonus	1,625	1,155	410	578	411	410
Total	**2,335**	**1,388**	**410**	**578**	**411**	**410**
Business Rates Retention	1,751	1,798	2,220	1,800	1,800	1,800
Business Rates Levy Account	Nil	Nil	Nil	25	Nil	Nil
Total	**4,086**	**3,186**	**2,630**	**2,403**	**2,211**	**2,210**

5.32 Since 2016/17 to 2021/22 Government Funding without including Business Rates Retention shows a reduction of £1.925m, highlighting the continuous financial pressures the Council has been facing,

5.33 An additional £180m was announced by Secretary of State, which has been provisionally allocated via the 2013/14 Settlement Funding amount allocations. It has been funded from the surplus on the Business Rates Retention levy/safety net account. This is a one-off funding for 2019/20 and Brentwood's share is £25,000.

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 As in previous years, 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 2019/20 is 32,863.20. This compares to a figure of 32,592.60 for 2018/19. 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.

Note - Please see Section 9 for Council Tax increase implications.

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 £364,723 to be distributed in respect of Council Tax by 31 March 2019. Table 7 shows how this will be distributed.

Table 7 – Estimated Collection Fund Surplus Distribution

Authority	Amount £
Brentwood Borough Council	43,717
Essex County Council	268,411
Police and Crime Commissioner	37,133
Essex Fire Authority	15,462

7.2 The Council must take the amount of £43,717 into account when it sets its element of the Council Tax for 2019/20.

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 2019/20 to reduce our Council Tax Requirement for that year.

Retained Business Rates

7.4 It is estimated that there will be a deficit of £942,644, of which Brentwood Borough Council's share is £377,058.

Table 8 – Estimated Business Rates Collection Fund Deficit Distribution

Authority	Amount £
Brentwood Borough Council	377,058
Essex County Council	84,838
Essex Fire Authority	9,426
Central Government	471,322

7.5 The Business Rates retention figure represents the Council's share (40%) of the total amount collected from local businesses, less a tariff payment to central government. The deficit has to be shared amongst the authorities and then included within the budget for 2019/20 to reduce General Fund Working Balance by the deficit amount. The deficit is mainly due to the emerging trend during 2018/19 of offices being converted to flats resulting in a loss of business rates yield.

8 General Fund Revenue Budget

Position Statement

8.1 Overall Revenue Forecast Position to 2021/22 is covered herein

8.2 The summary revenue budget and forecast to 2021/22 is outlined in Table 9.

Table 9 – Summary Revenue Budget & Forecast to 2020/21

	2018/19 Estimated Outturn £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Total General Fund Net Expenditure	10,774	10,787	10,919	10,919
Total Funding	(10,774)	(10,630)	(10,991)	(10,991)
Original Base Funding Gap	**-**	**385**	**298**	**298**
Current Pressures	2,825	2,619	3,089	3,711
Funding/Anticipated Savings	(2,825)	(2,609)	(2,155)	(2,302)
Revised Funding Gap	**-**	**395**	**1,232**	**1,707**
Less: 2019/20 Policy Initiatives (Table 12)	**-**	**(210)**	**(906)**	**(1,307)**
Net Funding Gap	**-**	**185**	**326**	**400**
Working Balance b/fwd	**3,305**	**3,305**	**3,120**	**2,794**
Funding Gap	**-**	**185**	**326**	**400**
Working Balance c/fwd	**3,305**	**3,120**	**2,794**	**2,393**

8.3 The projected outturn for 2018/19, is that the Council will achieve a break even position this is an improved movement as reported to this Committee on 20 November 2018.

Pressures

8.4 The current pressures for the Medium-Term Financial Plan are outlined in Table 10. The pressures have been identified through extensive budget monitoring with service managers and have undergone rigorous budget challenge sessions with the Council's Executive Board. Details of the financial pressures are required in order to sustain existing services as well as providing resources for investment into the Borough through the Council's proposed Capital Programme. An explanation of the pressures are also shown below.

Table 10 – Current Pressures

Description	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Employee Related Expenditure	-	548	431	574
Premises Related Expenditure	-	25	43	43
Transport Related Expenditure	96	-	-	-
Supplies & Services	21	-	11	11
Fees & Services	402	-	-	-
Communication & Computing	59	129	119	119
Third Party Payments	1,198	580	112	139
Transfer Payments	63	-	103	150
Interest Payable	65	444	1,272	1,520
Capital Financing (MRP)	-	-	80	240
Other Grants & Reimbursements	-	78	78	78
Sales Income	11	4	4	4
Fees & Charges	627	369	399	397
Rents Land & Building	85	65	359	359
Miscellaneous Receipts	198	-	78	77
NNDR Deficit	-	377		
TOTAL	**2,825**	**2,619**	**3,089**	**3,711**

a) Employee Related Expenditure – establishment costs have increased as the establishment evolves to fit the business. Some of the growth will be charged to Seven Arches Investment Ltd (SAIL)

b) Premises Related Expenditure – Inflationary increases to rates (NNDR) and energy costs.

c) Transport Related Expenditure – Vehicle fleet has come to it's end of life and requires capital investment as repairs & maintenance costs to the fleet are increasing.

d) Supplies & Services – Small equipment purchases required and increase to maintenance of equipment.

e) Fees & Services – Predominantly the increase of costs have been for professional advice regarding Local Development Plan (LDP) and the Joint Venture Partnership. These costs will be funded from earmarked reserves.

f) Communication & Computing – Growth required to maintain and develop the cloud working environment

g) Third Party Payments – Costs here are associated with Project Management Support and contracted services with the Council. A majority of this variance is associated with the resources required for the LDP and Joint Venture Partnership. These costs will be funded from earmark reserves.

h) Transfer Payments – Additional contribution to earmark reserves for funding received for specific requirements such as Health and Wellbeing grant, as well as Homelessness grant.

i) Interest Payable – Interest associated with the long term loans the Council will be required to take to finance the loans made to SAIL as well as the proposed capital program detailed in Section 11.

j) Capital Financing – Minimum revenue Provision (MRP) required by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to calculate a level a provision for the repayment of debt liability that it considers to be prudent. Details on the policy can be found in Section 12. This is the forecast based on the MRP policy.

k) Other Grants & Reimbursements – Reduction in recovery of costs for court and legal fees as well as, loss of contribution from ECC for installation and equipment of community alarms from referrals from ECC.

l) Sales Income – Reduction is recycling contract income.

m) Fees & Charges – Realignment of budgets to reflect decrease in demand for certain services such as:

- Golf Course income as this is weather dependant
- Cemetery Income as this is led by demand
- Parking Income, work on improving the MSCP has resulted in the closure of floors, in addition Hunters & Friars car park was not returned to the Council at the beginning of the financial year from Crossrail as assumed, so charging on these car parks have been delayed. Budgets have been realigned based on current demand for ‘shoppers’ parking income.

n) Rents, Land & Buildings – Revision to the town hall commercial income. Original office space proposed to be let on a commercial basis has been made available to other organisations that require rental relief, offset by the community value gained for residents.

o) Miscellaneous Receipts – Income from SAIL for resources of employees charged through a service level agreement.

p) NNDR Deficit – loss of Business Rates income resulting from office conversions to flats.

Political Initiatives

Included in the above pressures is an element of growth to provide investment into the Borough.

- £10k for Community Enforcement Officers for their patrols both on foot and in the dedicated Enforcement vehicle.

- £10k sponsorship for New Police Special constables, to cover training and expenses, who will have a visible and effective presence around the borough including rural areas.

Funding/anticipated savings

8.5 The current increase in funding and anticipated savings that are currently known are outlined in Table 11.

Table 11 – Increase in Funding/Anticipated Savings

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Employee Related Expenditure	(15)	-	-	-
Premises Related Expenditure	(275)	-	-	-
Transport Related Expenditure	-	(10)	(24)	(24)
Fees & Services	-	(18)	(63)	(63)
Transfer Payments	-	(309)	(229)	(229)
Capital Financing (MRP)	-	(141)	-	-
Government Grants	(346)	(483)	(458)	(458)
Other Grants & Reimbursements	(622)	-	-	-
Miscellaneous Receipts	-	(409)	-	-
Interest Receivable	(119)	(661)	(1,221)	(1,351)
Recharges	(38)	(73)	(140)	(157)
Transfers/Appropriations	(1,410)	(441)	-	-
Council Tax Surplus	-	(64)	(20)	(20)
TOTAL	**(2,825)**	**(2,609)**	**(2,155)**	**(2,302)**

a) Employee Related Expenditure – For 2018/19 this is the net impact of the vacancy factor.

b) Premises Related Expenditure – NNDR rate relief acquired on the Town Hall whilst it is currently unoccupied whilst it is being refurbished.

c) Transport Related Expenditure – Reduction in vehicle costs as assumptions are the existing fleet are replaced through the capital program.

d) Fees & Services – Procurement savings on internal audit and banking contracts.

e) Transfer Payments - Combination of pension strain reduction and election funding aligned to reflect the upcoming required elections.

f) Capital Financing (MRP) – no MRP to be provided in 2019/20 as historic credit, where the Council over provided in the past, is being utilised first.

g) Government Grants – Removal of negative RSG and increase in New Homes Bonus grant. Further information can be found in Section 5.

h) Other Grants & Reimbursements – Forecast of sports exemption VAT reclaim that will be earmarked to Funding Volatility reserve plus reimbursement of costs recovered i.e. insurance claims.

i) Interest Receivable – Aligned with SAIL's revised business plan. This is the income on loans to SAIL as outlined in the Capital Program.

j) Recharges – Increase of support costs passed onto the Housing Revenues Account (HRA)

k) Transfers/Appropriations – contribution from earmark reserves. For 2018/19 the increase is due to costs associated with the LDP and Joint Venture Partnership.

l) Council Tax Surplus – It is estimated that the Council Tax base will increase by around 108 Band D equivalent properties above what was forecast for 2018/19. The impact of this will be an increase in income of around £20k to that already budgeted for in the MTFP report agreed on 6 March 2018., Future years Tax Base are then forecasted from this position. In addition to this, the Council Tax Surplus in the Collection fund is forecasting a surplus of £44k.

Addressing the Revised Funding Gap

8.6 Taking into account the current pressures and known funding/anticipated savings shown in Tables 10 & 11. The Council recognises that further Initiatives are required in order to bring working balances above the minimum level to continue to keep the Council sustainable.

8.7 Included in Table 9, are proposed policy initiatives to reduce the funding gap to £185k for 2019/20 and further for future years. The detail of the proposed policy initiatives are set out below in Table 12.

8.8 2018/19 Policy Initiatives are added in for detail and clarity, to show what has already been included in the Original Base Funding Gap in Table 9.

Table 12 - Proposed Policy Initiatives- Detail

Proposed Policy Initiatives	2019/20 £'000	2020/21 £'000	2021/22 £'000
2018/19 Current Policy Initiatives			
Commercial Income/Wholly owned Company	(800)	(780)	(780)
Operational Service Review	(350)	(350)	(350)
Management initiatives	(168)	(168)	(168)
Additional lease Income	(95)	(95)	(95)
Total 2018/19 Policy Initiatives	**(1,413)**	**(1,393)**	**(1,393)**
2019/20 Proposed Policy Initiatives			
Additional Funding			
Council Tax Increase of 2.99% pa (Band D property)	(180)	(181)	(182)
Additional Savings			
Service Reviews	0	(100)	(100)
Leisure Strategy Income	(30)	(275)	(475)
Additional Commercial Income	0	(350)	(550)
Total 2019/20 Proposed Policy Initiatives	**(210)**	**(906)**	**(1,307)**
Total Policy Initiatives	**(1,623)**	**(2,299)**	**(2,700)**

8.9 Section 9 of this report explains the current Council Tax referendum limits and option increases. The proposed policy initiatives assumes that Council Tax is increased by 2.99% to maintain long term sustainability.

8.10 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. Following on from existing management initiatives already included in the base budget, it is proposed that results of Service reviews will not come into effect until 2020/21.

8.11 Leisure Strategy Investments included in the Capital Programme in section 11, propose to seek future revenue savings, subject to Individual business cases being finalised and brought to committee for approval.

8.12 The Council continues to embark on embedding commercialisation as an avenue for achieving a significant revenue stream for the Council's General Fund. The Asset Development Programme realises the potential of the Council's property asset base but at the same time securing the regeneration, economic development and housing objectives of the Council. This is provided in three different streams.

- The Council's Wholly Owned Company – Seven Arches Investment Limited, provides (SAIL)
- Securing a Joint Venture Partner.
- Early success Programme of the Council's Assets.

8.13 A cumulative total of £3.26million is currently included in the above Policy initiatives for 2019/20 budget and Medium-Term to 2021/22.

Pay Awards

8.14 The Council is not part of any national terms and conditions for local government employees. Most commonly known as NJC pay scale.

8.15 These pay scales are results of negotiations between trade unions and Local Government Association.

8.16 Negotiation and consultation are conducted at a local level in relation to levels of pay and benefits for all employees. Local negotiations around pay review are conducted on an annual basis, and any increase is agreed taking into account inflationary factors, local salary levels, affordability and any national award.

8.17 Based on this a 1% pay award has been built within the MTFP for all years from 2019/20.

8.18 1% pay award is reflected with the current MTFP as suitable increase in these uncertain financial times. The pay award will be reviewed annually and discussed with relevant representatives.

Working Balances and Reserves

8.19 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.

8.20 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.

8.21 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 13 'Section 151 Officer's Assurance').

8.22 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.

8.23 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.

8.24 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).

8.25 General Fund reserves consist of several earmarked reserves, together with an unallocated general reserve.

8.26 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.

8.27 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 other reserves are required to comply with proper accounting practice. In either case these balances are not available for investment.

8.28 As part of the budget approved in March 2018, 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 2019/20. This assessment has been assessed alongside the Council's strategic Risk register. Revised calculations show that the assessed level should remain at £2.2million.

8.29 Although this report on adequacy of reserves is specific to 2019/20, the Council should bear in mind that adequacy should also be judged against longer-term plans.

8.30 The Council is currently predicting the continuation of significant financial pressures every year with the General Fund Reserves further depleted. 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 or income generation ideas 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. This is the approach that the Council is taking.

8.31 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 2018 was around £5.591 million. A list of the Earmarked Reserves is attached as Appendix A.

Fees and Charges 2019/20

8.32 Proposed Fees and Charges have been taken to the appropriate Council Committee during the financial year 2018/19. The agreed fees and charges have been collated together for information to form Brentwood Borough Councils Fees and Charges Schedule attached as Appendix B.

Contract Register

8.33 The Council has a statutory obligation to publish contracts. Government guidance suggests that over £5,000 is a reasonable value. A Contract register is maintained to enable all officers to be involved in procurement to check if there is already a contract for their requirement. This also supports supplier rationalisation and obtaining best value.

8.34 The Contract Register can be accessed from the Councils intranet by all officers and Councillors.

Social Value

8.35 The Council is committed to providing support to organisations that enhance and support the local community, as well as social value throughout the whole borough. Table 13 quantifies how the Council provides support to the Borough and it's community and is committed to providing continued support.

Table 13 – Brentwood Borough Councils Social Value

Type	Cost to Council 2018/19 £'000
Direct Grants	151
Assisting in Grant Finder	8

Discretionary Rate Relief (NNDR)	85
Providing Community Events	36
Providing Local Business Events	10
Community Lettings	153
Community Safety & Enforcement	220
Maintenance of Leisure Facilities	315
Total Social Value	**978**

9. Council Tax Referendum and Council Tax

9.1 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.

9.2 Following the Provisional Local Government Settlement 2019/20 announced in December 2018 the Council Tax referendum limit has remained at 3%. For 2019/20 Councils Tax can now increase by a maximum of 3%. This will apply to categories of authority set out by the referendum principals report which include Borough Councils.

9.3 Members are reminded that the Provisional Local Government Settlement 2019/20 announced in December 2018 assumes that Councils will increase Council Tax levels. By increasing the Council Tax by 2.99% for 2019/20 there is a cumulative effect for future years and applying the same increase in future years the Council would be able to increase income as well as its budget base by:

Table 14 – Council Tax Increase options

Year	1% Increase in Council Tax	2% Increase in Council Tax	2.99% Increase in Council Tax
2019/20	60	120	180
2020/21	121	241	361
2021/22	181	363	543

9.4 By increasing Council Tax by 2.99% for 2019/20 band D equivalent increases by £5.49, from £183.14 to £188.63. This equates to 10.5p increase per week for a band D property.

9.5 The MTFP assumes that Council Tax is increased by 2.99%. The impact of the other options are detailed in Table 15.

Table 15 – Financial Impact of Council Tax Increase options.

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Revised Funding Gap	395	1,232	1,707
Saving Targets	(30)	(725)	(1,125)
Funding Gap before increase	365	507	582
Options – Funding Gap Impact			
1% increase	306	447	521
2% increase	246	386	460
2.99% increase	185	326	400
Working Balance Impact			
Council Tax Freeze	2,939	2,432	1,850
1% increase	2,999	2,552	2,031
2% increase	3,059	2,673	2,213
2.99% increase	3,120	2,794	2,394

9.6 By increasing Council Tax by 2.99%, this has a cumulative effect on General Fund working balances of £543k over 3 years.

9.7 The above excludes Parish Councils, Parish Councils are not subject to the referendum limit. In the provisional settlement for 2018/19, the government announced it will defer the setting of referendum principals for three years.

10. Housing Revenue Account (HRA) Budget 2019/20

10.1 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.

10.2 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 charge.

10.3 Since April 2012 the HRA has been operating in a new system known as Self Financing for local authorities with social housing.

10.4 Self Financing changed the way the Council's housing stock is funded. In principle, it gives more local accountability and responsibility for the operation of the Council's housing stock. The key elements of Self Financing are:

- The Government calculated a level of debt based on a 30 year assessment on expenditure, which was transferred to the authority to compensate the Government for the end of the subsidy scheme. For Brentwood, this was assessed at approximately £64.4million. We have borrowed to service this debt.
- Councils have full responsibility for the maintenance and development of the housing stock and also the servicing of the debt.
- A sum for depreciation of the stock is required to be included in the accounts.

10.5 The method of setting rents changed in the Government's summer budget 2015. As part of the new Welfare Reform and Work Bill 2015/16 it was announced that rents in the social housing sector will be reduced by 1% a year for the next four years. For 2019/20 this is the final year of applying the 1% rent reduction.

10.6 For 2020/21 based on Government proposals, local housing authorities are able to increase rent by CPI + 1% for 5 years. This is a welcomed response from Councils' nationwide as it will provide the stability and certainty it needed to build more new homes and will aid in the funding of investment in existing homes and service for tenants.

Service Charges

10.7 **Tenant Service Charges -** Historically, the Council has increased tenant service charges through a 'rolling reconciliation'. The 'rolling reconciliation', compares the previous year's actual to the budgeted figure. The under/over recovery is then passed onto the tenant in the following year. This is however, capped at CPI + 1%. This ensures service charges are cost recovered fairly.

10.8 **Leaseholder Service Charges** - These are levied by the Council, to recover the costs the Council incurs in providing services to a dwelling. The way in which the service charge is organised is set out in the leaseholder's lease or tenancy agreement and therefore they will be calculated accordingly.

Fees and Charges – Recharging Policy

10.9 On the 23 September 2015 the Environment and Housing Committee approved the new recharge policy. Previously recharges for Housing services have only been recovered on an ad hoc basis. This has led to the council subsidising some of the costs, which is ultimately passed on to the Council.

10.10 In addition to reviewing discretionary services, Officers have also reviewed the services the Council pays for, which are deemed rechargeable, but the Council is currently subsidising. It is hoped that the introduction of the re-charging policy, for these services will encourage tenants to be more aware and also more responsible for their property and actions within their property.

10.11 Prices have been calculated with the following price mechanism:

- 2018/19 – Cost price less 20%
- 2019/20 – Cost price less 15%
- 2020/21 – Cost price less 10%
- 2021/22 – Cost price less 5%
- 2022/23 – Cost price

Each year the percentage deducted will decrease by 5% until the full cost price is recovered.

10.12 The schedule of the fees and charges were agreed at the Community, Health and Housing Committee on 4th December 2018 and are attached as Appendix B.

Projected Outturn 2018/19

10.13 The estimated outturn for the HRA Fund is a potential deficit of £15k as at 31 March 2019 compared to a budgeted surplus of £115k. The main variance to the projected outturn is predominantly caused through the resourcing and expertise required for the re-procurement of the strategic asset management (Repairs and maintenance) contract. The anticipated deficit will deliver a working balance at the end of the financial year of £1.641 million and an earmarked reserve balance of £3million.

10.14 The HRA budget for 2019/20 indicates a surplus of £60k. The key variations from the budget are:

- The budget for Repairs and Maintenance has increased by £261k. Following a detailed re-procurement exercise, the Council has awarded its Repairs and Maintenance contract to Axis. It is expected that the beginning of the contract will require more financial resources than currently expended. This is to improve the current condition of the housing stock as well as improve the current service.

- Other costs associated to the mobilisation of the Repairs and Maintenance contract have increased costs in Supervision and Management by £80k.

- A Growth of £10k for investment in I.T for Orchard and housing asset management software Keystone.

- Recharges to the HRA have increased approximately by £36k.

- Dwelling Rent Income decreases by £126k taking into consideration the government rent decrease proposed within this report as well as the reduction in income due to the sales of council dwellings.

- Charges for Services and Facilities Income decreases by £15k. Predominantly less income is received as more dwellings are sold under right to buy. In turn, savings made on costs on supplying services are also passed onto the tenant.

- Depreciation charge has increased by £225k this is used to fund the capital program for decent home standards.

- Interest Debt and Management Charges decreased by £72k, transfer of shops to the General Fund also transfers the PWLB debt that finances these shops. Therefore, interest payable is due by the General Fund.

- Payments to the Pension Fund £100k, with current vacancies and in line with 2017/18 actual, pension strain on the HRA has decreased

HRA Working Balance

10.15 The HRA working balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the Working Balance should provide a reasonable allowance for unquantifiable risks or one-off exceptional items of expenditure that are not covered within existing budgets. The Working Balance can also be used to act as a source of pump priming investment and/or to deliver "invest to save" projects.

10.16 General guidance and practice amongst other authorities varies. Options include a percentage of total income, and a set value per Council Dwelling. However, individual risk assessments undertaken at a local level are considered best practice.

10.17 The Working Balance can be used to correct inflation assumptions, increase capital spend, repay debt early or to fund new HRA capital projects.

10.18 The average working balance for the period 2019/20 to 2021/22 is expected to be £1.739 million. This is deemed for the Council as an acceptable, assured level of balances.

Earmarked Reserves

10.19 In addition to the HRA Working Balance, the Council keeps two HRA Earmarked Reserves on the Balance Sheet. These Reserves are as follows:

- Council Dwellings Investment Fund – this reserve receives an annual contribution from the HRA (as outlined in the Business Plan), to support future investment in the Council’s housing stock. The anticipated balance in this reserve as at 31 March 2019 is £3 million. Voluntary annual contributions will only occur as long as it is affordable within the business plan.

- Repairs and Maintenance Reserve – this reserve will most likely to fully utilized in 2018/19 to fund costs associated to the mobilization of the repairs and maintenance contract.

Rent Levels

10.20 For the last six years, the Council has held a consultation process both with our tenants in general, and with Tenant Talkback in particular, so that the views of our tenants are taken into account in this important decision.

10.21 As part of the government summer budget 2015, rent policy changed and all social housing rents for General Need Housing are to decrease by 1% from 2016/17 until 2019/20 inclusive.

10.22 Under this rent policy, the main changes are:

- Current rents to reduce by 1% from 2016-17 to 2019-20
- Formula Rents can still be applied to all new tenancies, these must also reduce by 1% from 2016-17 to 2019-20

10.23 The rent year for 2019/20 will commence on 1 April 2019 and finish on 5 April 2020. It will be a 53 week rent year.

10.24 The Rent Model for 2019/20 applies the Governments assumptions as part of the new Welfare Reform and Work Bill 2015/16.

10.25 From 2020/21 the Government is proposing to allow Councils to increase rents by CPI + 1%.

Self Financing Settlement

10.26 On 28 March 2012 the Council borrowed £64.166 million from PWLB (Public Works Loan Board) in order for the HRA to become Self Financing as the subsidy system was being demolished. The Council profiled this borrowing over 6 loans ranging from lengths of 5 years to 30 years.

10.27 Table 16 shows the profiles of the loans that the Council holds regarding the Self-Financing Debt

Table 16 - Profile of HRA Loans

Loan Amount	Number of Years Held	Date Repayable	Interest %
5,000,000	10	28/03/2022	2.4
10,000,000	15	28/03/2027	3.01
15,000,000	20	28/03/2032	3.3
15,000,000	25	28/03/2037	3.44
14,166,000	30	28/03/2042	3.5

10.28 The HRA Business Plan from 2012/13 had been setting aside monies from surplus cash, to repay the loans. As at 31 March 2018 the amount set aside is £1.6 million.

The Council repaid £5 million on 28/03/2017, leaving the total loans outstanding at a value of £59.166 million

10.29 On average, the HRA was setting aside £1.5 million a year to repay back the above loans. With the decrease in rental income as well as the HRA contributing its surplus money towards funding the capital programme and affordable housing development scheme, the HRA can no longer set aside £1.5 million for voluntary loan repayment. The HRA therefore, will continue to set aside some money as long as it is affordable to the HRA.

10.30 Currently the business plan assumes that the HRA is able to set aside enough funds to repay the current outstand self-financing loans.

10.31 The need for additional borrowing will be reviewed on an annual basis and reflected in the reviewed Business Plan for the HRA.

Housing Rents

10.32 The average proposed decrease for Housing Properties in 2019/20 is 1% and the average rent decrease is £0.91 per resident.

10.33 If the rents are charged at the model's current calculation then the gross income will be £11.468m (2018/19 £11.642m) for social housing rents. The allowance for properties empty ("Voids") between letting will be 0.5%, therefore the expected Void budget will be £57k (2018/19 £58k).

10.34 Based on the current rent policy, the HRA social housing rental income decreases by £173k in 2019/20.

10.35 The Analysis of Rent increases/decreases have been outlined in Appendix D.

Tenant Service Charge Policy

10.36 The proposed rent decreases do not include service charges – specific additional charges for tenants primarily of flat blocks, relating to the provision of specific services, such as heating, communal lighting and caretaking.

10.37 Government guidance suggests service charges should not be increased by more than CPI + 1%. This guidance has been included in the service charge policy.

HRA Business Plan

10.38 The HRA Business Plan has been updated with the recommendations proposed in this report. A sensitivity analysis has been carried out to ensure the robustness of the 30-year plan. A summary is attached in Appendix C.

10.39 The following assumptions have been taken into account when considering the revised Business Plan:

- The financial viability of the HRA.
- Delivering a repairs maintenance programme of £2.681 million for 2019/20 onwards. In addition to a capital program of £3.576 million for 2019/20-2021/22. It is then assumed an average annual capital programme will be £3.1m after 2021/22
- Delivering an Affordable Housing Development Programme in addition to the Decent Home Capital programme. This averages at £10.563m for 2019/20 to 2021/22 and £2 million from 2020/21 onwards. This programme is also dependent on the number of right to buy sales made.
- Affordability for tenants.
- The 1% decrease has been applied to rental income for 19/20 and then rental income is to be increased from 2020/21 by CPI + 1%.

11. Capital Programme

11.1 This section considers the Capital Programme for the period 2018/19 to 2021/22.

11.2 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.

11.3 The Capital Programme sets out the medium term investment proposals, together with the identified sources of funding. The Capital Programme is aligned to the priorities of the Council.

Funding the Capital Programme

11.4 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.

- **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 or Housing Revenue Account.

- **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 – Affordable Housing

11.5 On 2 April 2012, Ministers confirmed delivering new homes would be through Local Authorities retaining receipts from right to buys (RTB), to spend in their area.

11.6 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.

11.7 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.

To date the Council has provided 23 number of properties let at Affordable Rent. 7 of these properties have been developed and 16 have been acquired off the open market.

11.8 Officers are currently investigating other methods to supply future affordable homes in the Borough and will report back to the relevant committee on how to take these alternative methods forward.

11.9 Table 17 details the proposed amounts to be spent on Affordable Housing in the Borough. Since June 2012 to March 2018 the Council has committed £5.763 million on providing Affordable Housing.

Table 17 – Retained Right to Buy Receipts Affordable Housing Program

Year	Program Amount £'000
2018/19	1,479
2019/20	6,881
2020/21	3,071
2021/22	611
Total	**12,042**

11.10 Only 30% of the programme total can be funded from right to buy receipts. The Business Plan also assumes that the 70% additional costs will come from the HRA earmarked reserve or revenue funding. However, there is the possibility of using Section 106 Contributions which have the provision of Affordable Homes as part of the conditions. If the program cannot be fully funded by revenue or Section 106 contributions, then the HRA will borrow to fund the remaining project. The need to borrow is reviewed on an annual basis along with the 30-year business plan.

Estimated Outturn of Capital programme

11.11 Following on from the Revised Capital Programme reported on 20th November 2018 Policy, Projects and Resources meeting. Table 18 outlines the Estimated Outturn of the 2018/19 Capital Programme.

Table 18 – Estimated outturn 2018/19 for Capital Programme

Description	2018/19 Estimated Outturn £'000
Town Hall Remodelling	7,347
Asset Development Program	150
Multi Storey Car Park	1,800
ICT Strategy	127
Play Area Refurbishments (incl S106 monies)	215
Parks Infrastructure Improvements	100
Irrigation to Golf Course	29
Open Space Incursions	60
Cemetery Infrastructure Improvements	191
Cemetery Headstones	17
Cemetery Memorial Wall	100
Home Repair Assistance Gran	5
Renaissance Group	39
Disabled Facilities Grant	250
Equipment Purchase S106	41
CCTV System Upgrade	19
Vehicle & Plant Replacement Programme	300
Loan to Wholly Owned Company	13,000
TOTAL GENERAL FUND	**23,790**
HRA Decent Homes	2,115
New Homes Build	2,832
TOTAL HRA	**4,947**

11.12 Any final Slippage to the projects that is required, will be reviewed and funded from Capital Receipts as originally budgeted.

Capital Programme 2019/20 to 2021/22

Table 19 – Capital Programme 2019/20 to 2021/22

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000
Existing Schemes – approved from previous year budgets			
Loan to Wholly Owned Company**	13,000	4,000	-
Town Hall Remodelling**	1,777	-	-
Asset Development Programme	542	-	-
Disabled Facilities Grant	250	250	250
Vehicle & Plant Replacement Programme	175	175	-
ICT Strategy	125	100	100
Home Repair Assistance Grant	10	10	10
Total Existing Schemes	**15,879**	**4,535**	**360**
Additional Investment to Existing Schemes			
Vehicle & Plant Replacement Programme*	793	593	200
ICT Strategy*	50	25	25
Asset Development Programme*	-	250	200
Investment of New Schemes			
Leisure Strategy Developments	8,750	1,250	825
Car Parking Improvements	300	20	20
Depot Enhancements	163	-	-
CCTV Upgrades	60	-	-
Total of New Capital Investments	**10,116**	**2,138**	**1,270**
Total General Fund Capital Program	**25,995**	**6,673**	**1,630**
HRA Decent Homes	3,576	3,576	3,576
HRA Parking Spaces – New Investment	25	-	-
New Homes Build	6,882	3,072	611
Total HRA Capital Program	**10,483**	**6,648**	**4,187**
Total Capital Programme	**36,478**	**13,321**	**5,817**

*Existing Schemes on Rolling Programmes
** Budget Reprofiled

11.13 The existing schemes do not include projected carry forwards from 2018/19. Any slippage on the Capital Projects will be decided once the final outturn 2018/19 is confirmed and approved at Committee.

11.14 New Capital Investments have been formalised by an extensive Capital Bid process. Bids were submitted by service managers, which were then reviewed and challenged by finance and the Executive Board. The new schemes included in Table 19 are considered to be priority investments for the Council. Not all bids received have been included in the Capital Programme.

11.15 The Town Hall budget has been reprofiled to reflect the cashflows of the project. The budget for 2018/19 was £5.205 million and £3.919 million for 2019/20. The increase of £2.142 million for 2018/19 requires 2019/20 budget requirement to be reduced by the same amount.

11.16 Loan to Wholly Owned Company has been reprofiled to reflect Seven Arches Investment Limited's (SAIL) business plan of the £30m loan with £13m allocated in 2018/19.

11.17 The Council will continue its investment in its Housing Stock (estimated at £10.7 million over the next 3 years). HRA decent homes has been realigned with the current requirement of the Housing Stock.

11.18 Explanation of Investments to New and Existing Schemes are listed below:

a) Vehicle Replacement Program - Existing fleet is currently being 'sweated' whilst service review was completed. Fleet now requires replacement to offset the increase in vehicle repairs & maintenance costs.

b) ICT Strategy - Growth is required to keep equipment up to date on a rolling program, this is to enable greater flexible working using these devices that are compliant offsite workstations must be appropriate.

c) Asset Development Programme - Following a stock condition survey to be carried out in 2019/20, an informed planned capital program will be required to enhance and maintain the condition of current General Fund assets.

d) Leisure Strategy Developments - The total 3 year programme of £10.825 million includes funds for potential development.

Leisure Strategy Developments	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
King Georges Playing Field Pavilion	7,000	-	-
Play Area Strategy Developments	350	500	825
Community Hall Enhancements	650	-	-
Football Hub Development	750	750	-

- King Georges Playing Field Pavilion was agreed in principal at Policy, Project & Resources Committee on 23rd January subject to a final business case being brought to Committee for approval.
- A Play Area Strategy has been approved for a 5 year programme of £2.2 million subject to Budget approval.
- Community Hall's – Costs of dilapidation works for Hall sites in order to receive full revenue potential.
- Football Hub Development – This budget will only be utilised subject to approval of Feasibility works which are required in order for this project to go ahead as well as a Full Business case being brought to Committee for approval.

e) Car Parking Improvements - There is a requirement to improve the infrastructure of the Car Parks including improved payment kiosks and moving to cashless payment provision.

f) Depot Enhancements - Health and Safety works required at the depot site for toilet upgrades as well as costs for demolition of the depot hanger due to emerging maintenance costs.

g) CCTV Upgrades - The current cameras with exception of some already replaced have reached end of life from a maintenance perspective. In order to maximise quality and make the most of modern technology. The back-office storage also requires expansion to store HD quality footage, along with the required licenses

h) HRA Parking spaces – Feasibility works were carried out in 2018/19 to inform additional car parking spaces within HRA land. Additional expenditure is required in order to carry out the works.

Capital Programme Funding Sources

11.19 Assuming all of the New Schemes are approved, the total investment for the three-year programme will be £61.051 million and the funding sources are outlined in the Table 20

Table 20 - Capital Programme 2019/20 to 2021/22 – Funding Sources

	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	**£'000**	**£'000**	**£'000**
General Fund	23,790	25,995	6,673	1,630
HRA	4,947	10,483	6,648	4,187
Total Expenditure	**28,737**	**36,478**	**13,321**	**5,817**

Financed by:				
General Fund Capital Receipts	(3,593)	(200)	(200)	(200)
Government grants	(250)	(250)	(250)	(250)
Section 106 Funding	(238)	-	-	-
Other Grants (FA Funding)	-	(450)	(450)	-
Borrowing (GF)	(6,709)	(12,095)	(1,773)	(1,180)
Borrowing (Wholly owned Company)	(13,000)	(13,000)	(4,000)	-
HRA Capital Receipts	(850)	(2,064)	(921)	(183)
HRA Major Repairs Reserve	(2,115)	(3,602)	(3,577)	(3,577)
HRA Revenue	(1,982)	(4,000)	-	(427)
HRA Borrowing	-	(817)	(2,150)	-
Total Financing	**(28,737)**	**(36,478)**	**(13,321)**	**(5,817)**

11.20 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.

12. Treasury Management Strategy

12.1 This report presents the Treasury Management Strategy for 2019/20. It covers the following areas:

a) The Council's capital plans and the prudential indicators
b) The Council investment policy and strategy
c) The minimum revenue provision (MRP) policy

12.2 CIPFA defines treasury management as:
"The management of the local authority's borrowing, 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."

12.3 The Council is required to receive and approve the following documents:-
a) An annual treasury management strategy (this document)
b) A mid-year review of treasury activity
c) A year-end report on treasury activity

Treasury management consultants

12.4 The Council uses Link Asset Services (LAS) 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 its external service providers.

12.5 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Capital Prudential Indicators 2019/20 – 2021/22

12.6 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the following prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

12.7 Capital Expenditure. This indicator is a summary of the Council's capital expenditure plans and how they will be financed. This is covered in Tables 21 and 22 and is summarised as follows. The Commercial activities line refers to lending by the Council to SAIL:

Table 21 – Capital Expenditure

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Fund	3,170	10,790	12,995	2,673	1,630
HRA	2,769	4,947	10,483	6,648	4,187
Commercial activities	0	13,000	13,000	4,000	0
Total	**5,939**	**28,737**	**36,478**	**13,321**	**5,817**

12.8 The table below summarises the plan for financing the capital expenditure programme:

Table 22 – Capital Financing Projections

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital receipts	(3,360)	(4,443)	(2,264)	(1,121)	(383)
Capital grants	(1,206)	(488)	(700)	(700)	(250)
Revenue	(564)	(1,982)	(4,000)	0	(427)
Major repairs reserve	(809)	(2,115)	(3,601)	(3,576)	(3,576)
Borrowing	0	(19,709)	(25,912)	(7,923)	(1,180)
Total Financing	**(5,939)**	**(27,737)**	**(36,478)**	**(13,321)**	**(5,817)**

12.9 The expenditure on commercial activities will be fully financed by borrowing. This is highlighted in the following table:

Table 23 – Commercial Activity

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Expenditure	0	13,500	13,000	4,000	0
Amount financed by borrowing	0	13,500	13,000	4,000	0

12.10 The Council's borrowing need (the Capital Financing Requirement).
The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. Members are requested to approve the CFR projections below:

Table 24 – Capital Financing Requirement

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Fund	11,096	17,805	29,872	31,238	31,851
HRA	61,544	61,544	62,361	64,261	62,511
Commercial activities	0	13,000	26,000	30,000	30,000
Total CFR	**72,640**	**92,349**	**118,233**	**125,499**	**124,362**
Movement in CFR		**19,709**	**25,884**	**7,266**	**(1,137)**

Movement in CFR represented by:					
Net financing need for the year		19,709	25,912	7,923	1,180
Less MRP/VRP		0	(28)	(657)	(2,317)
Movement in CFR		**19,709**	**25,884**	**7,266**	**(1,137)**

Borrowing Strategy and Prudential Indicators 2019-20 to 2021-22

Current borrowing position

12.11 The Council's treasury portfolio position at 31 March 2018, with forward projections are summarised below. The table shows the actual external debt against the Capital Financing Requirement, highlighting the Council's under borrowing position.

Table 25 – Current Borrowing Position

	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
External Debt					
Debt at 1 April	61,166	61,166	74,666	100,801	108,724
New borrowing	0	13,500	26,135	7,923	1,180
Repayment of borrowing	0	0	0	0	(5,000)
Actual gross debt at 31 March	61,166	74,666	100,801	108,724	104,904
Capital Financing Requirement	72,640	90,506	116,141	123,564	124,244
Under borrowing	**(11,474)**	**(15,840)**	**(15,340)**	**(14,840)**	**(19,340)**

12.12 The Council is required to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes. The Council will comply with this prudential indicator in the current year and does not envisage difficulties for the future.

12.13 Operational Boundary for External Debt. This is the limit beyond which external debt would not normally be expected to rise. It is proposed that this set at the CFR plus an allowance of £5m for any short-term borrowing needs.

Table 26 - Operational boundary for external debt

Operational boundary	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Financing Requirement	92,349	118,233	125,499	124,362
Short term borrowing needs	5,000	5,000	5,000	5,000
Total	97,349	123,233	130,499	129,362

12.14 Authorised Limit for External Debt. This is the maximum level of borrowing that the Council is permitted to hold. It is proposed that this be aligned set at the operational boundary plus £3m for any future long-term liabilities.

Table 27 - Authorised limit for external debt

Authorised limit	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Operational boundary	97,349	123,233	130,499	129,362
Other long-term liabilities	3,000	3,000	3,000	3,000
Total	**100,349**	**126,233**	**133,499**	**132,362**

Borrowing Strategy

12.15 The Council has not needed to borrow externally over the last few years to fund its capital programme, as in the main it has had sufficient capital receipts and other resources to fund its capital spend. Where there has been a shortfall in resources, it has funded the capital programme from internal cash balances, which has been a prudent approach as investment returns have been low.

12.16 There is an ambitious capital programme over the next few years, and there is no the scope to deliver the programme without external borrowing. The Council expects to borrow £13.5m during 2018/19 and a further £34m over the next three years. The £13.5m will be borrowed short-term from other local authorities. This is also a prudent approach as short-term borrowing rates are lower than long-term rates.

12.17 The Council's primary objective is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. It will work closely with its treasury advisors to formulate an approach that meets this objective. An update will be given to members in the next treasury management report.

Debt Rescheduling

12.18 It is not envisaged that any debt rescheduling will take place during 2019/20.

Policy on borrowing in advance of need

12.19 The 2017 Prudential Code issued by CIPFA states that a council should not borrow more than or in advance of its needs purely to profit from investment of the extra sums borrowed. However, it is widely accepted that "borrowing in advance of its needs" is not specifically defined and is therefore open to interpretation.

12.20 Some of the Council's borrowing will be to finance the activities of its wholly owned company Seven Arches Investments Ltd (SAIL) by way of a state aid compliant loan in order for SAIL to invest in properties for a commercial return. The Council is satisfied that the loan to SAIL is expenditure for capital purposes, which will increase its Capital Financing Requirement. The Council interprets the financing of this loan to be within the scope of the Prudential Code and an appropriate use of its borrowing powers

12.21 The Localism Act 2011 positively enables the Council to act commercially, through a company. The Interim Chief Finance Officer is satisfied that SAIL has robust processes in place to mitigate the inherent risks of undertaking commercial activity. A Loan Drawdown Facility was approved by Full Council in June 2018 and no drawdowns are undertaken until the funds are required. Drawdown of the Loan Facility can only take place once the CFO, in consultation with the Leader and Group Leaders, is satisfied that due diligence has taken place. A major part of this due diligence is the appointment of a top London firm of Investment Property Advisors, top City Lawyers, and well-respected external Surveyors and Valuers. In addition, an investment strategy has been drawn up which ensures that a diverse portfolio will be achieved and that all properties will meet the criteria set out including yield, location, alternative uses, length of lease, tenant strength and good covenant.

Interest rate forecasts

12.22 LAS's interest rate forecasts are set out below.

Table 28 – LAS Base Rates & PWLB Borrowing Rates

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Base Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
5 year PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%
10 year PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%
25 Year PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%
50 year PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Base Rate View	1.25%	1.50%	1.75%	1.75%	1.75%	1.75%	2.00%
5 year PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10 year PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25 Year PWLB Rate	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50 year PWLB Rate	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

12.23 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years. Borrowing interes rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have back tracked since then until early January. They are also expected to rise gradually over the next few years.

Affordability Prudential Indicator

12.24 Ratio of Financing Costs to Net Revenue Stream

These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances by identifying the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The Commercial activities line represents the net income to the Council from its long-term lending to SAIL. For the HRA, income from dwelling rents and other sources is used as a proxy for net revenue stream.

Table 29 - Ratio of General Fund Financing Costs to Net Revenue Stream

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	2%	1%	4%	7%	8%
Commercial activities	0%	-1%	-2%	-4%	-4%
HRA	18%	14%	15%	16%	27%
Total	**11%**	**9%**	**10%**	**11%**	**18%**

Treasury prudential Indicators for debt

12.25 The following debt related treasury activity limits are intended 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.

12.26 Upper limits on fixed and variable interest rate exposures.

Table 30 - Upper limits on fixed and variable interest rate exposures

	2018/19	2019/20	2020/21
Fixed interest rate exposures	100%	100%	100%
Variable interest rate exposures	20%	20%	20%

12.27 Maturity Structure of Borrowing

The purpose of this indicator is to reduce the Council's exposure to large amounts of debt falling due and requiring repayment or refinancing. This ensures that the Council's repayments are affordable.

Table 31 - Maturity Structure of Borrowing

	Proportion of Borrowing	
	Lower Limit	Upper Limit
Under 12 months	0%	50%
12 months and within 24 months	0%	50%
24 month and 5 years	0%	50%
5 year and within 10 years	0%	50%
10 years and above	0%	100%

Investment Strategy

Investment policy

12.28 The Council's investment policy has regard to the MHCLG Guidance on Local Government Investments, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 and the CIPFA Treasury Management Guidance Notes 2018. The primary investment priorities of the Council are:

a) the security of its capital
b) liquidity of its portfolio, i.e. keeping funds readily available for expenditure when needed.

Durational limits and creditworthiness policy

12.29 To determine the duration of investments with bank and building societies, the Council will use the creditworthiness service provided by Link Asset Services. This service employs a modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard & Poor, supplemented by other information. The model indicates the relative creditworthiness of counterparties and recommends a maximum duration for investments with them. The Council will follow these recommended durations, up to a maximum duration of one year. The Link Asset Services model does not apply to local authorities, with which the maximum duration for investments will also be one year.

Investment Strategy

12.30 The Council will continue its approach of investing the majority of its funds in parcels of £1-£2m with other local authorities and UK banks and building societies.

Investment instruments and limits

12.31 Table 31 summarises the investment instruments available to the Council during 2019/20, and the respective credit rating, value and durational limits that will apply:-

Table 31 – Proposed Investment Instruments

Instrument	Minimum short term credit rating	Minimum long term credit rating	Maximum value of investment	Maximum duration of investment
Term Deposits with UK Local Authorities	N/a	N/a	£5m per local authority	1 year
Term deposits or notice accounts with UK banks	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per bank	1 year
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		£5m per bank	1 year
Term deposits with UK Building Societies	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per Building Society	1 year
Debt Management Account Deposit Facility (DMADF)	N/a	N/a	Unlimited	6 months (DMADF imposed time limit)
Ultra Short/Short Dated Bond Funds	Selection Process	Selection Process		
Treasury Bills issued by the UK Government	N/a	N/a	Unlimited	1 year
Money Market Funds CNAV	N/a	AAA	£5m per fund	Liquid
Money Market Funds LVNAV	N/a	AAA	£5m per fund	Liquid
Money Market Funds VNAV	N/a	AAA	£5m per fund	Liquid
Certificates of Deposit issued by UK institutions	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per institution	1 year

12.32 All investments will be transacted in UK Sterling, and all investments will be with UK financial institutions only.

12.33 The monetary limits included in the investment strategy does not apply to balances on our suite of current accounts provided by Lloyds Bank plc. As a result, we may operate from time to time with monies held with Lloyds Bank marginally above the investment limits shown because of these current account balances. The Council endeavours to keep balances of no more than £2m on its current accounts.

Ultra-Short/Short-Dated Bond Funds

12.34 These are pooled investment vehicles where risk is diversified because of the spread of investments. They are a potential new investment instrument for the Council, and a selection process will be undertaken should to ensure that the most suitable fund is chosen, if officers consider that it is worthwhile pursuing them.

Investment returns expectations

12.35 On the assumption that the UK and the EU agree a Brexit deal in Spring 2019, the Bank Rate is forecast to increase steadily but slowly over the next few years reaching 2% by quarter 1 2022. Bank Rate forecasts for financial year ends are:

- 2018/19 0.50%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

12.36 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2018/19 0.40%
- 2019/20 0.60%
- 2020/21 1.50%
- 2020/21 1.75%

Specified and not specified investments

12.37 Specified investments are high security, high liquidity investments in sterling with high credit quality and a maturity of no more than one year. All of the instruments identified in Table 31 meet the definition of specified instruments.

12.38 Non-specified investments are any other type of investments, one of their characteristics being that their duration is over one year, which is in excess of the Council's maximum duration. The Council will therefore not use non-specified investments during 2019/20.

Minimum Revenue Provision Policy

12.39 The Council is required by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to calculate a level a provision for the repayment of debt liability that it considers to be prudent, known as the Minimum Revenue Provision (MRP). The regulations also require the full Council to approve an MRP policy in advance of each financial year. These regulations and supplementary guidance recommend four options for the calculation of the provision.

12.40 The Council commissioned LAS to carry out a review of its MRP policy during 2018 and, as a result, a revised MRP policy was agreed at Council on 5 December 2018.

12.41 The Council is recommended to approve this policy for 2019/20. The policy is as follows:

1. Debt Liability pre 1 April 2008
   For capital expenditure funded by borrowing before 1 April 2008, minimum revenue provision will be provided in accordance with existing practice outlined in the pre-2008 regulations, but on a 2% straight-line basis, i.e. provision for the repayment of debt over 50 years.

2. Debt Liability 1 April 2008 onwards
   Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing or credit arrangements is to be determined by reference to the expected life of the asset on an annuity basis. The asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.

3. Minimum revenue provision in respect of unsupported (prudential) borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

4. The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

12.42 There is no requirement on the HRA to make a minimum revenue provision but under HRA reform there is a requirement to charge depreciation on its assets, which will have a revenue effect. The HRA business plan will need to fund this depreciation over the life of the assets.

12.43 A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed, this policy must disclose the cumulative overpayment made each year.

12.44 Between 2003/04 and 2010/11 the Council provided MRP totalling £1.269m. Most of this has been offset in the subsequent years against the MRP charges in those years. The remaining overprovision as at 31 March 2019 is forecast to be £0.069m.

Section 151 Officer's Assurance

General Fund

13.1 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 must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

13.2 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.

13.3 Proposed Policy Initiatives over the next three years totalling £2.423million have been anticipated from 2019/20 as well as using working balances to ensure that the Council remains within the minimum level of reserves.

13.4 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.

13.5 A list of the Council's Earmarked Reserves is attached at Appendix A. The levels of reserves are considered to be adequate to fund the planned expenditure identified by the Council.

13.6 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 2019/20. This will continue to be kept under review.

Housing Revenue Account (HRA)

13.8 Section 25 of the Local Government Act 2003 also requires that, when the Council is considering the HRA budget and rent levels, the Council's Section 151 Officer must report on:

- The robustness of the estimates, and
- The adequacy of the proposed financial reserves.

13.9 The estimates are considered robust. Realistic assumptions have been incorporated with regards to inflationary increases, and where appropriate these have been reflected in both expenditure and income.

13.10 The budget includes planned contributions to the reserves which will provide resources for investment and debt repayment requirements.

14. Council Tax Requirement 2019/20

14.1 The full Council Tax resolution is included as a separate report to Full Council on 27th February 2019.

15. Reasons for Recommendation

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

16. Implications

Financial Implications
Name & Title: Jacqueline Van Mellaerts, Interim Chief Finance Officer
Tel & Email:01277 312829 / jacqueline.vamellaerts@brentwood.gov.uk.

16.1 The financial implications are set out in the report.

Legal Implications
Name & Title: Daniel Toohey, Head of Legal Services and Monitoring Officer.
Tel & Email: 01277 312860 / daniel.toohey@brentwood.gov.uk.

16.2 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.

16.3 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.

17 Appendices to this report

Appendix A – Earmarked Reserves

Appendix B – Fees and Charges Schedule

Appendix C – HRA Business Plan

Appendix D – Analysis of Rent Increases/Decreases

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