Supplementary Committee Agenda

Epping Forest District Council

Finance and Performance Management Cabinet Committee Thursday, 19th September, 2013

Place:	Committee Room 1, Civic Offices, High Street, Epping
Time:	6.00 pm
Democratic Services:	Rebecca Perrin, The Office of the Chief Executive Tel: 01992 564532 Email: democraticservices@eppingforestdc.gov.uk

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8. ANNUAL GOVERNANCE REPORT (Pages 3 - 34)

(Director of Finance & ICT) To consider the report (FPM-009-2013/14).

9. BUDGET 2014/15 - FINANCIAL ISSUES PAPER (Pages 35 - 48)

(Director of Finance & ICT) To consider the report (FPM-010-2013/14).

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EPPING FOREST DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2013

CONTENTS

OVERVIEW

Key audit findings

The purpose of this report is to communicate to you the significant findings from our audit of the financial statements of Epping Forest District Council for the year ended 31 March 2013. This overview covers those matters we believe to be significant in the context of our work. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

We have largely completed our audit work and anticipate issuing an unqualified opinion subject to the outstanding matters listed on page 2.

AREA OF AUDIT	SUMMARY
Financial statements	No material misstatements were identified as a result of our audit work. Some areas of work are still outstanding at the time of drafting this report (see page 2). Should these result in any significant issues, we will provide an update to the Audit and Governance Committee. Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2013.
Unadjusted audit differences	There are a number of unadjusted audit differences identified by our audit work that are detailed in Appendix II. The net effect of adjusting for these differences would be to reduce the deficit for the year by £116,000.
Internal controls	No significant deficiencies were identified during our review. However, some areas of improvement were identified which we have discussed verbally with management.
Annual Governance Statement	We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and a verbal update will be given at the Audit and Governance Committee on 23 September 2013.
Value for Money Conclusion	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013. We propose issuing an unqualified value for money conclusion.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have largely completed our audit work in respect of the financial statements, and anticipate issuing an unqualified opinion on the financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Governance Committee meeting on 23 September 2013.

- Receipt of outstanding bank confirmation letter
- audit of the updated cash flow statement workings
- completion of our audit of a few disclosure notes
- receipt of amended final financial statements following agreed amendments
- subsequent events review
- clearance of review points
- management representation letter, as attached in Appendix VIII to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Completion of outstanding audit work on the financial statements	20 September 2013
Audit and Governance Committee meeting	23 September 2013
Signing of financial statements (subject to completion of WGA review)	27 September 2013

INDEPENDENCE

INDEPENDENCE

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Governance Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes.

The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the audit engagement partner and the audit staff. This document considers such matters in the context of our audit for the year ended 31 March 2013.

A summary of our fees for audit and non-audit services for the period from 1 April 2012 to date is set out below.

We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors of the financial statements and that our independence declaration, included in the Audit Plan for 2012/13, has remained valid throughout the period of the audit.

	£
Code Audit fee	85,329
Grants certification fees (estimate)	32,250*
Fees for non-audit services	-
TOTAL FEES	**117,579**

* Please note that this figure has been amended since the fee reported in our Audit Plan due to there being an error in the original calculation made by the Audit Commission. This is the revised Audit Commission published scale fee.

AUDIT SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for Local Government and is in accordance with International Standards on Auditing (UK and Ireland), Practice Note 10: audit of public sector bodies in the United Kingdom (October 2010), and guidance issued by the Audit Commission.

This requires that we form an opinion on whether:

1 The financial statements give a true and fair view of the state of the Council's affairs as at 31 March2013 and of the income and expenditure for the year then ended	**2** The financial statements have been properly prepared in accordance with statutory requirements and proper practices have been observed in their compilation	**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting	**4** The information given in the Statement of Accounts and Explanatory Foreword is consistent with the financial statements
5 The Annual Governance Statement is not inconsistent with our knowledge and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE)	**6** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and for: • securing financial resilience • challenging how it secures economy, efficiency and effectiveness	**7** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared	

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FINANCIAL STATEMENTS

Key audit and accounting matters

To provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been properly prepared, we carry out risk-based procedures designed to obtain sufficient, appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements.

We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the opinion in the auditor’s report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £33,000 to be trivial and have not reported them, unless the misstatement is indicative of fraud.

We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We only restate weaknesses already reported by Internal Audit where we consider these to be significant deficiencies. Recommendations in response to the key findings identified by our audit of the financial statements are provided in the action plan at Appendix V. These recommendations have been discussed with appropriate officers and their responses are included.

Materiality may relate to both quantitative and qualitative matters and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, Appendix 3 gives an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

AUDIT RISK AREAS			
RISK	**RELATED CONTROLS**	**WORK PERFORMED**	**CONCLUSION**
MANAGEMENT OVERRIDE	ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities. By its nature, there are no controls in place to mitigate the risk of management override.	We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.	We did not identify any significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. Our work on accounting estimates has not identified any evidence of bias.
REVENUE RECOGNITION - FEES AND CHARGES	ISA (UK&I) 240 assumes that there is a rebuttable presumption that there is a material risk of fraud arising from revenue recognition. We have rebutted this presumption for all income streams except for fees and charges income. We have confirmed that the Council has put in place controls to ensure the occurrence, completeness and accuracy of the income from these sources.	We substantively tested an extended sample of fees and charges income to ensure that accounting policies had been correctly applied in determining the point of recognition of income and that income was completely and accurately recorded.	No issues have been identified from our testing of fees and charges income.

AUDIT RISK AREAS			
RISK	**RELATED CONTROLS**	**WORK PERFORMED**	**CONCLUSION**
IMPLEMENTATION OF NEW PROPERTY MANAGEMENT SYSTEM	The input of information onto the new CIPFA asset management system has been reviewed by the Principal Accountant. Officers liaised with CIPFA (system providers) around technical accounting issues and CIPFA have also reviewed the final processors of the new system to ensure that it is operating correctly.	We substantively tested a sample of assets to ensure that they had been correctly transferred from the prior year audited listing. We reviewed the new systems processes to ensure they are operating in line with expectations and that depreciation had been correctly calculated.	**Non dwelling assets transfer** The Council has historically maintained its fixed asset register on a net basis and, as a result, when transferring to the new system the gross values of the assets and accumulated depreciation were not readily available. As a solution to the issue, the Council reviewed the asset register on an asset-by-asset basis and worked back to the original gross cost of the asset, using the amount depreciated in 2011/12 and the asset's useful life. This resulted in the £2.5m restatement to the gross value and accumulated depreciation to the brought forward amounts, being the balance between the gross values carried forward from the prior year accounts to the worked back gross value from the Council's calculations that have been uploaded to the new asset system. We tested a sample of these assets and concluded that the method applied by the Council was not unreasonable. **Non dwelling assets depreciation** Our testing did not identify any issues with the depreciation charged during the year. However, we have identified an issue regarding the Revaluation Reserve, where the opening balance as per the financial statements did not agree to the asset management system. In line with the requirements of the Code, revaluation gains should be depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account. This adjustment had not been made in previous years, but the new asset management system calculated the Revaluation Reserve as though it had. This adjustment, amounting to £423,000, should have been made in prior periods. The financial statements have been updated to adjust for this in the current year, so that the year end Revaluation Reserve is correct, and agrees to the asset management system. There is no impact on the CIES and the Revaluation Reserve and the Capital Adjustment Account have both been restated by £423,000.

AUDIT RISK AREAS			
RISK	**RELATED CONTROLS**	**WORK PERFORMED**	**CONCLUSION**
			Dwelling assets transfer The Council has historically not accounted for individual council dwellings on the fixed asset register. With the new system, properties are individually recorded on the fixed asset register and, consequently, the “brought forward” total values required allocating across individual properties. This was achieved through allocating the brought forward amounts based on the valuer’s assessment of the property’s value as at 1 April 2011. The gross value of the properties was easily identifiable as the revaluation had taken place on 1 April 2011. The new system also required additional information on historical cost, brought forward impairments and reversals. We tested a sample of dwellings and concluded that the method applied by the Council was reasonable. **Dwelling assets depreciation** The new asset management system was not able to cope with the number of components that would be required to include council dwellings in the system on a component basis. The Council therefore calculated an average useful economic life of each dwelling using the useful economic lives for each component and included this within the new system. We reviewed this calculation and concluded that the depreciation calculated using this method was not materially different to the depreciation that would have been calculated if each component was accounted for separately, and therefore the estimated cost of depreciation was not unreasonable.

Accounting Practices and Financial Reporting Framework

Financial statements preparation process	Audit issues and impact on opinion
The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011. However, these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The 2012/13 financial statements were signed and presented for audit on 4 July 2013. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of comprehensive working papers on 15 July 2013, in line with an agreed timetable. Further working papers in response to queries were obtained during the course of the audit.	Unfortunately there was a flood at the Council offices two weeks prior to the 30 June deadline. Whilst the Council successfully put into practice its disaster recovery plan, minimising the impact on the provision of services, there was an impact upon the officers' ability to present the financial statements for audit by this date. Officers discussed this at an early stage and we agreed that the start date would be delayed by one week to 15 July to facilitate officers being able to collate the working papers.

Accounting policies	Audit issues and impact on opinion

The following changes have been introduced by the 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code'), resulting in changes in accounting practice:
 	
• There has been some re-ordering and re-phrasing of the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) The Conceptual Framework for Financial Reporting 2010 (the Conceptual Framework). The 2012/13 Code has:
  ○ Underlying Assumption: Going Concern
  ○ Fundamental Qualitative characteristics: Relevance, Materiality, Faithful Representation
  ○ Enhancing Qualitative Characteristics: Comparability, Verifiability, Timeliness, Understandability
 	
• Amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets).
	We have no matters to report.

Accounting estimates	Audit issues and impact on opinion
We review material accounting estimates identified as having high estimation uncertainty or which are subject to a significant degree of judgement by management, and assess the reasonableness of the assumptions applied by management when deciding whether to recognise amounts in the accounts or the value at which these are recognised. We consider the following to be material accounting estimates with high estimation uncertainty: • valuation of property • estimated pension liability • provision for bad and doubtful debts	**Valuation of property** Land and buildings are required to be carried at fair value which is either existing use value, depreciated replacement cost for specialised properties or open market value. The Council re-values HRA properties on an annual basis and other land and buildings over a five year rolling programme. There is no adjustment for price indices between formal valuations unless there is indication of material change. Management make valuation adjustments to land and buildings based on valuation reports and useful economic lives provided by an independent firm of valuers with specialist knowledge and experience valuing local authority estates, which has regard to local prices and building tender indices in the public sector. We are satisfied that the valuer is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the valuations provided, when compared to other price index information available, and useful economic lives allocated to buildings and significant components showed that they are not unreasonable. **Estimated pension liability** The net pension liability of the Council comprises its share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council. We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities. **Provision for bad and doubtful debts** We have reviewed the methodology applied by the Council in estimating the allowance for doubtful debts across all categories of debtor. There has been no change to the method applied when compared to the prior year and we are satisfied that these methods are not unreasonable.

Disclosures	Audit issues and impact on opinion
We review material accounting disclosures, to confirm that they are in compliance with the requirements of the Code.	A number of presentational and disclosure amendments have been made to the draft financial statements as a result of the audit, which include: • inclusion of additional disclosures within the Accounting Standards that have been issued but have not yet been adopted note (Note 2) to meet the requirements of the Code. • the financial instruments note (Note 18) had not been prepared in accordance with the Code and included amounts such as council tax arrears, which arise under statute, and therefore does not meet the definition of a financial instrument. • the trading operations note (Note 29) did not disclose the minimum disclosures as required by the Code. • inclusion of additional disclosures to explain the material adjustments to the opening balances of property, plant and equipment (Note 12) • the Capital Expenditure and Capital Financing note (Note 37) and the HRA Capital Expenditure note (HRA Note 8) was updated to show the disclosure as required by the Code and to be consistent with the balances disclosed elsewhere in the financial statements. • The Adjustments between accounting basis and funding basis under regulations note (Note 6) and the HRA note of reconciling items for the statement of movement on HRA balances (HRA Note 12) was updated to show the disclosures as required by the Code and to be consistent with the balances disclosed elsewhere in the financial statements. • The timing of revaluations note (Note 12) incorrectly disclosed the newly revalued amount for Council Dwellings and Garages within the “historical cost” line in this note. The financial statements were updated to include this revaluation within the 31 March 2013 line to reflect the proper timing of the values. Other asset classes have also been re-analysed between years.

Misstatements	Audit issues and impact on opinion
We identified a number of departures from the expected presentation of the 2012/13 financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance.	The following misstatements identified by the audit have been amended by management: • Re-classification of assets held for sale £515,000 from long term assets to current assets on the balance sheet. • As discussed as part of the “implementation of new property management system” audit risk on page 6, an adjustment of £423,000 was made to reduce the Revaluation Reserve and increase the Capital Adjustment Account.

Unadjusted audit differences	Audit issues and impact on opinion

We are required to report to you unadjusted audit differences that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditors' report, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix II.

Prior year issues brought forward

New Homes Bonus

Our prior year audit found that the Council had received a payment of grant for the new homes bonus of £58,000 in March 2012 but did not account for this income in the year. However, the Code requires that where a grant is received, and there are no conditions attached to the grant, the amount should be recognised immediately. This error also impacts upon the current year income, which has been overstated by £58,000.

Bad debt provision

Our prior year audit found that the Council had incorrectly included write offs processed during the year within the calculation of the year end provision, resulting in an overstatement of the bad debt provision of £58,000 and an understatement of the debtors balance by the same amount in the Balance Sheet. This error also impacts upon the current year income, which has been overstated by £58,000.

Rental income

Our prior year audit identified rental income of approximately £35,000 that was raised after the year end but related to 2011/12 and therefore should have been included in the 2011/12 financial statements. This error also impacts upon the current year income, which has been overstated by £35,000.

NNDR debtor

Our prior year audit found that the Council had overstated the NNDR pool debtor by £395,000 due to an error in the calculation methodology. This error also impacts upon the current year income, which has been understated by £395,000.

Accruals

Our prior year audit found that the Council had incorrectly accounted for accruals, resulting in a projected misstatement of £44,000, where expenses and liabilities had been overstated. This error also impacts upon the current year expenditure, which has been understated by £44,000.

In all cases above, there is no continuing misstatement in balances as at 31 March 2013.

Current year issues

HRA income

Our testing identified income of £81,000 was not being recognised as income in the HRA Income and Expenditure Statement but was instead being netted down within the Repairs and Maintenance expenditure line. Income and expenditure should be accounted for gross and are, therefore, both understated.

Unadjusted audit differences	Audit issues and impact on opinion

Completeness of land

Our testing of completeness of land and buildings identified some pieces of land that belonged to the Council but were not included in the fixed asset register. Discussions with officers identified that they were aware that these pieces of land existed but had not yet carried out an exercise to identify them all. Given the small sizes of these pieces of land, which do not have planning permission, the value of this land would not be material. However, we recommend that the Council identifies these pieces of land and includes them as part of the revaluation programme.

Provisions

The Council has included a contingent liability disclosure within the financial statements in relation to their possible liability for the settlement of claims relating to Mesothelioma (which is a rare form of cancer, almost always caused by exposure to asbestos dust). However, based on our testing we consider that a provision would be appropriate as the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets to recognise a provision have been met. The scheme administrators have determined that a levy rate of 15% will be required and, therefore, based on the Council's total claims payments a provision of £84,000 should have been made. We consider that expenditure and provisions are therefore both understated by £84,000. However, the Council has previously set aside £650,000 within the Insurance Reserve, which is an earmarked reserve. If a provision had been recognised then this reserve would have been used as the source of funding and therefore there would be no net impact on the HRA balance. Our unadjusted error for this issue therefore reflects both the need to account for expenditure and also the utilisation of the earmarked reserve to fund this.

Major Repairs Reserve

2012/13 saw the introduction of the self-financing regime for the Housing Revenue Account via the Localism Act 2011 and a suite of self-financing determinations introduced the new regime. This allows for a five-year transitional period where it is permitted for the difference between a notional Major Repairs Allowance (MRA) and dwelling depreciation to be charged to the Major Repairs Reserve (MRR), such that the notional MRA becomes the effective charge against the HRA balance.

Our testing of the amounts charged to the MRR identified that the Council had calculated the charge using the total depreciation figure, rather than using the dwelling depreciation. The non-dwelling depreciation amounted to £423,000 and the MRR has therefore been understated by this amount, with the HRA reserve being overstated by the same amount.

Overall impact

The impact of correcting these items would reduce the reported deficit for the year by £116,000.

Matters required to be reported by other auditing standards

Whole of Government Accounts (WGA)	Audit issues and impact on opinion
We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level. This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.	We have not yet completed our testing on the Council's WGA return. A verbal update will be provided to members at the Audit and Governance Committee.

Annual Governance Statement	Audit issues and impact on opinion
We have reviewed the draft Annual Governance Statement and are satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report.

USE OF RESOURCES - KEY AUDIT MATTERS

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors. This is based on the following two reporting criteria:

- the organisation has proper arrangements in place for securing financial resilience
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of the criteria for 2012/13 is:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity
- undertaking other local risk-based work, as appropriate.

Our work considered the outcome from the Audit Commission's financial ratio tool and value for money profiles tool as well as a review of the medium term financial strategy, performance reports and strategic and operational planning documents. Discussions were held with key officers to confirm and update out knowledge as part of this process.

Financial resilience	Audit issues and impact on opinion
The draft 2012/13 financial statements report that the Council has achieved an underspend of £498,000 against the revised budget for 2012/13 and has recognised a increase of £1,926,000 in its usable reserves (comprising the general fund, earmarked reserves, housing revenue account, capital receipts reserve, major repairs reserve and capital grants unapplied) when compared to the closing balances in 2011/12. The Council has set a balanced budget for 2013/14 and had identified required savings prior to the start of the year. From our review of current documentation, the Council is on track to deliver its 2013/14 budget. The Council also has a good track record of achieving budgets and its successful financial management arrangements have put the Council in a relatively strong position of having built up good levels of funds and reserves to support it in its response to the continued financial pressures faced. The medium term financial plan forecasts that it will be necessary to utilise reserves until 2016/17. However, at the end of this period it is estimated that revenue reserves will still be approximately £7.8m, which is more than twice the minimum level of reserves necessary to comply with its own financial management policies. The Council already outsources a number of services in order to achieve savings and has been actively reviewing the on-going value for money (VFM) of these arrangements.	We have no matters to report.

Challenging economy, efficiency and effectiveness	Audit issues and impact on opinion
The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2012/13. The arrangements operated during the year remain adequate. Business plans continue to outline annual value for money considerations and implications for each service and include benchmarking comparisons where appropriate. Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators. The Council makes use of consultation, option appraisal and partnership working to assist in achievement of savings and delivery of improved services.	We have no matters to report.

BDO CONCLUSION

Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission, and the results of risk based audit work, as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. We propose issuing an unqualified value for money conclusion.

APPENDICES

APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Epping Forest District Council
Management	The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.
Those charged with governance	The person(s) with responsibility for overseeing the strategic direction of the Council and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance for the Council are the Audit and Governance Committee.
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom 2012/13
CIES	Comprehensive Income and Expenditure Statement
SeRCoP	Service Reporting Code of Practice for Local Authorities 2012/13
WGA	Whole of Government Accounts

APPENDIX II: UNADJUSTED AUDIT DIFFERENCES

We are required to bring to your attention unadjusted audit differences that the Audit and Governance Committee are required to consider. A schedule of such adjustments is included below and, with the exception of the errors that relate to prior year misstatements, we request that you correct them. Identified misstatements for the current year should, where practicable, be corrected even if not material.

There are eight unadjusted audit differences identified by our audit work for the current year, which would decrease the draft deficit on the CIES by £116,000. Management considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement.

		CURRENT YEAR		PRIOR YEAR		
UNADJUSTED AUDIT DIFFERENCES	**CIES DEFICIT (OVER) / UNDER £'000**	*INCOME OVER / (UNDER) £'000*	*EXPENSES (OVER) / UNDER £'000*	*INCOME OVER / (UNDER) £'000*	*EXPENSES (OVER) / UNDER £'000*	**NET ASSETS OR RESERVES OVER / (UNDER) £'000**
Deficit for the year before adjustments	**6,219**					**357,852**
Impact of prior year misstatements (no adjustment required in 2012/13)						
(1) Being a grant for £58,000 in relation to the New Homes Bonus that was received in advance in March 2012, with no conditions in place. This should therefore have been recognised as income in 2011/12 and not 2012/13.	**58**	***58***		***(58)***		
(2) Being the overstatement of the bad debt provision in 2011/12 due to write offs being incorrectly included.	**58**	***58***		***(58)***		
(3) Being the understatement of income in 2011/12 due to four invoices in relation to rental income not being accrued for during 2011/12	**35**	***35***		***(35)***		
(4) Being the overstatement of the NNDR debtor in 2011/12 due to an error in the calculation.	**(395)**	***(395)***		***395***		

UNADJUSTED AUDIT DIFFERENCES	CIES DEFICIT (OVER) / UNDER	*CURRENT YEAR*		*PRIOR YEAR*		NET ASSETS OR RESERVES OVER / (UNDER)
		INCOME OVER / (UNDER)	*EXPENSES (OVER) / UNDER*	*INCOME OVER / (UNDER)*	*EXPENSES (OVER) / UNDER*	
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	£'000
(5) Being the projected misstatement arising from the incorrect treatment of accruals in 2011/12.	44		***44***		(44)	
Misstatements identified in the current year						
(6) Being the understatement of both income and expenditure due to netting off of income against the repairs and maintenance expenditure.		***(81)***	***81***			
(7) Being the understatement of expenditure and provisions, and an overstatement of earmarked reserves due to a provision in relation to Mesothelioma claims not being recognised.	84		***84***			(84) 84
(8) Being the understatement of the Major Repairs Reserve and overstatement of the HRA reserve due to non-dwelling depreciation being incorrectly included in the calculation.						423 (423)
TOTAL UNADJUSTED AUDIT DIFFERENCES	**(116)**	**(325)**	**209**	**244**	**(44)**	**0**
Deficit for the year and net assets if adjustments accounted for	**6,103**					**357,852**

UNADJUSTED DISCLOSURE MATTERS

The following unadjusted disclosure matters were noted:

The Council has reported the interest on compulsory purchase compensation of £237,000 as an exceptional item on the face of the CIES. For items to be reported as exceptional, they must be material to the financial statements. We do not agree that this item is of sufficient value to be considered material and therefore should not be reported as an exceptional item (note that the value itself is considered to be appropriate).

APPENDIX III: MATERIALITY

MATERIALITY	
Planning materiality	£1,050,000
Final materiality	£1,050,000
Clearly trivial threshold	£33,000

Planning materiality of £1.05 million for the Council was based on 1% of gross expenditure. The figure was based on the full year outturn per the draft financial statements and we have no reason to revise this figure for our final materiality level.

APPENDIX IV: INDEPENDENCE

INDEPENDENCE - THREATS TO INDEPENDENCE AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors of the 2012/13 financial statements.

We confirm that the firm complies with the APB Ethical Standards and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

APPENDIX V: ACTION PLAN

FINANCIAL STATEMENT RECOMMENDATIONS				
CONCLUSIONS FROM WORK	**RECOMMENDATIONS**	**MANAGEMENT RESPONSE**	**RESPONSIBILITY**	**TIMING**
Pieces of land were identified from our testing that had not been included in the Council's fixed asset register. There is a risk that the Council have understated their assets.	Identify the pieces of land that belong to the Council but have not been included in the fixed asset register. Include these in the Council's revaluation programme and include these within the fixed asset register.	A joint piece of work involving the Accountancy and Legal Services will be undertaken.	Assistant Director of Finance and ICT	December 2013

APPENDIX VI: FEES SCHEDULE

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan.

We will carry out a detailed comparison of actual audit costs incurred against planned costs when we have completed the audit and discuss any impact on the planned fee of £85,329 with management, before we report the final fee outturn.

APPENDIX VII: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
	23 September 2013	Management and those charged with governance	Report to Audit and Governance Committee
Potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.	Not an issue	Not an issue	Not an issue
Misstatements, whether or not recorded by the entity	✔	✔	✔
The final draft of the representation letter	✔	✔	✔
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Not an issue	Not an issue	Not an issue
Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or our audit report	Not an issue	Not an issue	Not an issue
Expected modifications to our audit report or inclusions of emphasis of matter / other matter	Not an issue	Not an issue	Not an issue
Significant deficiencies in internal control	Not an issue	Not an issue	Not an issue
Any other matters warranting attention by those charged with governance, such as questions regarding management integrity, and fraud involving management	Not an issue	Not an issue	Not an issue
Management judgements and accounting estimates	✔	✔	✔
Other information in documents containing audited financial information	✔	✔	✔
Consultation with other accountants	Not an issue	Not an issue	Not an issue
Major issues discussed with management	Not an issue	Not an issue	Not an issue

APPENDIX VIII: DRAFT REPRESENTATION LETTER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

xx September 2013

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of Epping Forest District Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for financial statements

I acknowledge as the Director of Finance and ICT and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom and have been prepared in accordance with the requirements of applicable law.

Significant assumptions

I confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

(a) Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

• Rate of inflation (RPI)	3.3%
• Rate of inflation (CPI)	2.5%
• Rate of increase in salaries	4.3%
• Rate of increase in pensions	2.5%
• Rate for discounting scheme liabilities	4.1%
• Take up option to convert the annual pension into retirement grant	50%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Fair value measurements and disclosures

I confirm that the valuation at which land and buildings are carried in the financial statements is a reasonable approximation of their fair values, on the bases required by the Code of Audit Practice.

(c) Valuation of housing stock

The useful economic lives of the housing stock and its constituent component, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me by the expert valuer appointed by the Council to provide this information.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Plans or intentions

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Uncorrected misstatements

You have brought to my attention potential misstatements in the financial statements as listed in the appendix to this letter. I do not wish to amend the financial statements to reflect any of these items as I believe that they are immaterial both individually and in aggregate to the view given by the financial statements as a whole.

Going concern

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

INFORMATION PROVIDED

Completeness of information

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and Committee meetings held during the year and up to the date of this letter have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Internal Control

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

I am not aware of any actual or possible instances of non-compliance with laws and regulations whose effects should be considered when preparing the financial statements of the Council.

Related parties

I confirm that I have disclosed to you the identity of the Council's related parties, related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities or guarantees

There are no liabilities, contingencies or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Contractual agreements

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

Robert Palmer BA ACA
Director of Finance and ICT

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which include the financial statements. The Director of Finance and ICT is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance and ICT for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor A Watts
Audit and Governance Committee Chair

For and on behalf of Epping Forest District Council

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report reference: FPM-010-2013/14
Date of meeting: 19 September 2013

Portfolio: Finance and Technology

Subject: Financial Issues Paper

Responsible Officer: **Bob Palmer – (01992 – 56 4279)**

Democratic Services Officer: **Rebecca Perrin - (01992 - 56 4532)**

Recommendations/Decisions Required:

1. To recommend to the Cabinet the establishment of a new budgetary framework including the setting of budget guidelines for 2014/15 covering:

(a) The Continuing Services Budget, including growth items;

(b) District Development Fund items;

(c) The use of surplus General Fund balances; and

(d) The District Council Tax for a Band 'D' property.

2. To recommend to the Cabinet the agreement of a revised Medium Term Financial Strategy for the period to 2017/18, and the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.

3. To recommend to the Cabinet a detailed review of fees and charges, specifically parking charges which have not increased for five years.

4. To recommend to the Cabinet reductions of 13.6% and 14.1% in parish support, in line with the reductions in the central funding this Council receives.

Executive Summary:

This report provides a framework for the Budget 2014/15 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

In broad terms the following represent the greatest areas of current financial uncertainty and risk to the Authority

- Central Government Funding
- Business Rates Retention
- Welfare Reform
- New Homes Bonus
- Development Opportunities
- Reducing Income Streams
- Waste and Leisure Contract Renewals
- Organisational Review

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2014/15.

Reasons for Proposed Decisions:

By setting out clear guidelines at this stage the Committee establishes a framework to work within in developing growth and savings proposals. This should help avoid late changes to the budget and ensure that all changes to services have been carefully considered.

Other Options for Action:

Members could decide to wait until later in the budget cycle to provide guidelines if they felt more information, or a greater degree of certainty, was necessary in relation to a particular risk. However, any delay will reduce the time available to produce strategies that comply with the guidelines.

Report:

General Fund Out-turn 2012/13

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2012/13 is being presented to Council on 26 September, but the audit has not amended any of the outturn figures. In summary the General Fund Revenue outturn for 2012/13 shows that Continuing Service Budget (CSB) expenditure was £456,000 lower than the original estimate and £498,000 lower than the revised. The single largest variance was a £195,000 underspend on Housing Benefits, due to adjustments relating to prior years and increased identifications of overpayments.

2. The revised CSB estimate for 2012/13 increased from £14.735m to £14.777m with the actual being £14.279m. The main in year changes related to the savings on the waste management contract and the inclusion of the New Homes Bonus but this was offset to a degree by the decision to build the whole of the pension deficit payments into the CSB. Given that the capitalisation direction applied for in 2011/12 was refused this was considered the appropriate prudent step to take in the circumstances. A significant variance was also seen on the opening CSB figure, which is consistent with the variance arising from salary savings.

3. Net DDF expenditure was £594,000 lower than the revised estimate. However £836,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2013/14, giving a net overspend of £242,000. Three directorates had variances between their revised and actual DDF spending of more than £100,000. The largest variance was £418,000 on Planning and Economic Development, which relates mostly to work on the Local Plan. In Corporate Support Services there was an underspend of £143,000, largely due to the national legal issue on personal searches remaining unresolved. The Office of the Chief Executive had an underspend of £107,000 as the work on the Local Land and Property Gazetteer was still in progress at the year-end.

4. The non-portfolio items include income of £237,000 for interest on a compensation payment relating to the construction of the M25 on Council owned land. This was a complex issue and the final resolution of it is welcome as it has been ongoing since 1992. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £3.581m at 31 March 2013. However, the vast majority of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend

of £498,000. This translates into an increase in balances of £498,000 compared to the original estimate of an increase of £13,000.

The Updated Medium Term Financial Strategy

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2012/13 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will reduce by £204,000 in 2013/14 before reducing in subsequent years by £690,000 in 2014/15, £1,330,000 in 2015/16 and £464,000 in 2016/17 before reducing by £189,000 in 2017/18.

7. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2014 of £9.466m represents over 70% of the anticipated NBR for next year (£13.379m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2018 the revenue balance will have reduced to £6.793m. This still represents 53% of the NBR for 2017/18 (£12.720m).

8. The financial position as at 1 April 2013 was better than had been anticipated, reflecting the success of the cost control measures put in place. Further work was done on the 2012/13 revised estimates to identify and reduce budgets with a history of underspending. However the outturn has shown that there are still some areas where further reductions are achievable.

9. The target saving for 2014/15 has been increased up from the original level of £500,000 to £700,000. This is followed by targets of £700,000 for 2015/16 and 2016/17 which then reduces to £200,000 for 2017/18. These net savings could arise either from reductions in expenditure or increases in income. Progress has already been made on the identification of savings, with some of the individual items being covered in reports to Cabinet. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £1.416m of DDF funds available at 1 April 2018. The four-year forecast approved by Council on 19 February 2013 predicted a DDF balance of £1.507m at the end of 2016/17.

11. Capital balances have been updated for recent outturn figures. The low level of capital receipts means that the predicted balance at 1 April 2018 falls below £6m. Over this four-year period the capital programme has approximately £70m of spending, inclusive of the HRA. Previously the need to use capital balances for revenue generating assets has been highlighted and this has been included in the Capital Strategy.

Continuing Services Budget

12. The CSB saving against revised estimate was £0.498m, compared to £0.562m in 2011/12. A significant cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £19.092m compared against an original estimate of £19.526m. There is currently an under spend on the salaries budget in 2013/14 and this is expected to continue, although at a reduced level as approximately £400,000 was removed from the salaries budget through the deletion of vacant posts in setting the 2013/14 budget.

13. As already mentioned above, a number of CSB budgets were under spent and these will be closely scrutinised going forward to ensure budgets are more closely aligned with actual spending in prior years.

14. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Retained NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have not indicated any desire to contradict Government guidance that council tax increases should be frozen again for next year, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that council tax would increase annually by 2.5% after 2013/14. Previously Members had a policy under which increases in council tax had been linked with increases in the rate of inflation. For information, RPI is currently 3.1% and CPI 2.8% (July 2013 figures, released in mid August) and inflation forecasts retain an important role in estimating future costs. However, in these ongoing difficult economic times Members have indicated a desire to limit the burden on hard pressed tax payers and so no increase has been allowed for in 2014/15.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2013/14 narrowly missed that objective, as funding from Government Grants and Local Taxpayers was £44,000 below CSB. The revised estimate for this year shows a net increase of £160,000 in CSB at this time although that is likely to change as we go through the budget process.

Central Government Funding

16. We are now in the brave new world of locally retained business rates, vastly reduced Revenue Support Grant and Local Council Tax Support. Elsewhere on the agenda there is a report on the current round of financial consultations being undertaken by the DCLG, the figures used below take a prudent view on the likely outcomes. Rather unhelpfully the DCLG have not provided a separate figure for Local Council Tax Support Grant for 2014/15, this means it is necessary to provide two comparative tables below to illustrate the reductions in funding. The first table is based on Formula Grant but this is only possible up to 2013/14.

	2009/10 £m	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Formula Grant (adjusted)	9.368	9.415 (8.710)	7.590 (7.543)	6.656	6.050
Increase/(Decrease) £	0.046	0.047	(1.120)	(0.887)	(0.606)
Increase/(Decrease) %	0.5%	0.5%	(12.9%)	(11.8%)	(9.1%)

17. The figures shown above illustrate the substantial annual reductions that began in 2011/12. Even using the adjusted figure of £8.710m for 2010/11, Formula Grant has reduced by £2.66m or 31% over the last three years. From 2014/15 Formula Grant has not been separately identified so a different comparison is needed.

	2013/14 £m	**2014/15 £m**	**2015/16 £m**
Formula Grant	6.050	Not known	Not known
Homelessness Grant	0.113	Not known	Not known
Local Council Tax Support Grant	1.119	Not known	Not known
Funding Assessment	**7.282**	**6.290**	**5.40**
Increase/(Decrease) £	n/a	0.992	0.89
Increase/(Decrease) %	n/a	13.6%	14.1%

18. By providing only figures at the Funding Assessment level for 2014/15 and 2015/16 the DCLG has prevented a detailed comparison with earlier periods. However, it can still be seen that in three years under this new system funding reduces by £1.882m or by 25.8%. Using the two tables to make a crude comparison it can be seen that over 5 years funding has fallen by nearly 60%. The Local Government Association have responded angrily to the proposed reductions in 2015/16 and are encouraging Councils to respond to the current consultation

setting out their concerns about the likely impact on services to the public. The funding position in 2015/16 is £728,000 worse than had been anticipated in the previous MTFS, in updating the MTFS this full reduction has been allowed for.

19. As part of abolishing Council Tax Benefit and introducing Local Council Tax Support the DCLG had to determine whether parish councils would be affected by the reduction in council tax base or left outside the calculations. Despite the consultation responses on the scheme being massively in favour of tax base adjustments only at district level the DCLG decided that parish councils should also be affected. One of the problems with this decision is that DCLG does not have a legal power to make grant payments direct to parish councils. This meant the funding for these councils had to be included in the grants to districts and it was then for districts to determine how much of the grant was passed on. Members determined last year that parish councils should be fully protected from this change for 2013/14, a decision not shared by many authorities across the country. This meant that the figure notionally relating to parishes of £312,810 was topped up with an additional £7,460 to £320,270.

20. We do not have separate figures now for Local Council Tax Support, let alone a detailed split between the district and the parishes. In the absence of this information it is fair to assume the overall reductions of 13.6% and 14.1% are common to each element of the Funding Assessment. On that basis it is proposed to reduce the funding to parish councils by 13.6% for 2014/15 (£43,621) and 14.1% for 2015/16 (£39,007). These amounts need to be seen in the light of the total parish precepts for 2013/14 being just short of £3m.

<u>Business Rates Retention</u>

21. There was concern at this time last year about the design of this new system but thankfully the DCLG listened to the views being expressed and modified several of their assumptions. To refresh Member's memories some of the information from the 2013/14 budget papers is repeated below in paragraphs 22 to 26.

22. For this district the predicted total amount of non-domestic rates for 2013/14 has been set as £31,888,336, which is shared out as shown in the table below.

Authority & Percentage Share	Amount £
Central Government (50%)	15,944,168
EFDC (40%)	12,755,334
Essex County Council (9%)	2,869,950
Essex Fire Authority (1%)	318,884

23. As the billing authority we are responsible for collecting the money and then paying it over as set out above. However, as our share (£12,755,334) exceeds the amount of our funding deemed to come from retained business rates (£2,909,311) the excess (£9,846,023) is also paid to Central Government as a "Tariff". The tariffs are used to provide "Top Ups" to those authorities whose non-domestic rate income is lower than their deemed funding from business rates. Overall this means we will be collecting nearly £32 million but retaining less than £3 million, or just over 9%.

24. The basic amounts within the system are now fixed for an extended period, DCLG have stated that the system will not be re-set until 2020. Although this does not apply to the tariff payments that will be increased annually by inflation, we have been given an indicative tariff figure for 2014/15 of £10.148 million.

25. Overall the predicted total level of non-domestic rates is broadly in line with the current position and it is unlikely that we will have either a large initial shortfall or any windfall gain from the new system. There is a major concern here though due to the way appeals and refunds will be treated within the system. Even though DCLG have already had the benefit of

non-domestic rates paid in respect of periods prior to 1 April 2013, all appeals regardless of start date will be accounted for within the new system. This will mean billing authorities will be refunding money that they have not benefited from in the first place. It also means that in getting to a predicted level of non-domestic rates for 2013/14, allowance has to be made for the amount of money you anticipate having to pay out in appeals and refunds.

26. Calculating an appropriate provision for appeals is extremely difficult as there are currently more than 500 appeals with the Valuation Office. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern at the moment as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem.

27. Having had that reminder of how we got here it is necessary to consider what our monitoring has told us since the start of the year. There are two aspects to the monitoring, firstly changes in the rating list and secondly the collection of cash. Changes in the rating list are important as with local retention the overall funds available to authorities will increase or decrease as the total value of the list increases or decreases. The NNDR1 form set out the non-domestic rate estimates for the year and started with a gross yield of £40,208,899 which was then reduced by the various reliefs for charities and small businesses and an allowance for appeals to get to a net rate yield of £31,897,379. At the end of July the net rate yield had reduced by £111,924 and as the Council retains 40% of gains and losses this would mean a reduction in funding of £44,770. This position could improve over the rest of the year but it is a concern as this district is losing businesses to the Enterprise Zone in a neighbouring district.

28. Cash collection is important as the Council is required to make payments to the Government and other authorities based on their share of the rating list. These payments are fixed and have to be made even if no money is collected. Therefore, effective collection is important as this can generate a cash flow advantage to the Council. If collection rates are low the Council is left to finance these payments from working capital and so has to reduce investment balances. At the end of July the total collected was £17,115,229 and payments out were £13,289,085, meaning the Council was holding £3,826,144 of cash and so the Council's overall cash position was benefitting from the effective collection of non-domestic rates.

29. In summary, at the end of July the collection of cash is not a concern but the reduction in the overall value of the rating list is. The other concern is the fact that there has been little progress on the appeals position set out in paragraph 26 and so this significant risk is still with us. The MTFS has not assumed either any growth or any shortfall in funding from retained business rates.

30. One other aspect of the new scheme worth mentioning is the ability to pool with other authorities to share risk and possibly reduce levy payments. The DCLG were very late issuing guidance last year and so although most Essex authorities were keen on pooling in principle, no agreements was possible for 2013/14. The possibility of pooling is now being taken forward through the Essex Leaders Strategic Finance Group with the intention of having a pool in place for 2014/15.

<u>Welfare Reform</u>

31. This phrase is used to capture a number of initiatives that are radically changing the way many benefits are paid and the amounts of those benefits. The single largest change from 1 April 2013 is the abolition of Council Tax Benefit and its replacement with Local Council Tax Support. Over the last year much effort has gone in across the county to develop, consult on and implement schemes aimed at being self-financing. Because of the requirement to protect

people of pension age and the different demographics across the county it was not possible to agree a single uniform scheme but a number of common principles were agreed that all of the schemes were based on.

32. In constructing our own scheme we were always conscious that some of the assumptions being used by the DCLG and the Department for Work & Pensions (DWP) meant that talk of a 10% saving would in reality mean a funding gap closer to 15%. This meant many variables were modelled and considered before a draft scheme was agreed by Cabinet for consultation and finally adoption by Council in December 2012. The final scheme should reduce current expenditure of £8.95 million to £7.68 million to provide a saving of 14%. It was a considerable relief when the settlement figures were announced to find out that the grant being provided to compensate authorities for the reduction in tax base was sufficient to cover both the loss to the parish councils and the loss to this Council. There is a small surplus of approximately £30,000, although given anticipated expenditure of £7.68 million this is not much of a margin for error.

33. It is still too early to draw any firm conclusions on collection rates from the bills for 20% of the full charge. We are trying to get people to engage with us and, unlike some authorities, are taking these debts through a slower recovery cycle. Cabinet on 22 July 2013 decided on the aspects of the scheme for 2014/15 to consult on and that consultation is now underway. A recent survey by the Society of District Council Treasurers showed that over 60% of districts are planning on keeping their schemes largely unchanged for 2014/15. This seems sensible given that we will have little hard data to work with and it would be better to consider any radical changes from 2015/16 onwards.

34. Whilst I have said that it is too early to draw any conclusions yet, the initial signs and the dialogue with most people are encouraging. It appears that in dealing with first time payers there is an acceptable range of bill that has tipping points either side. If you try and charge these people too much they will have no hope of paying and will ignore the debt. If you charge these people too little they will think you will not try and enforce such a small debt and will ignore it. So in trying to claw back any reduction in grant through increasing the 20% to 30% or more we need to be careful that we do not create a situation where we actually end up collecting less.

35. It is worth taking this opportunity to briefly update on some of the other welfare reforms. Both the Benefits Cap and the Spare Room Subsidy (also known as the “Bedroom Tax”) were delayed but have now been introduced. Early indications of the impact of these changes are not good. In view of the reforms, the key performance indicator for rent collection had a reduction in its target from 97% to 96% but collection in the first quarter of 2013/14 was only 92.17%.

36. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit. Unfortunately this scheme has also been subjected to delays and confusion, further highlighted by the recent report of the National Audit Office. There is still no clarity over the time period and process for the migration of our existing housing benefit claims to Universal Credit. The DWP is still to decide on the role it wants local authorities to perform under the new system. This on-going uncertainty is unhelpful to both claimants and staff. Whilst there seems general agreement about the need to bring the welfare bill for the country under control there remains room for improvement in the delivery mechanisms.

New Homes Bonus

37. The amount of New Homes Bonus (NHB) payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average Council Tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going

to the county council and 80% to the district, with the amount being payable for six years. For 2014/15 the Council will receive approximately £495,000 and it is proposed to add that amount to the CSB income figure.

38. There was concern with the re-working of local government funding that the NHB might have been removed or diminished in some way. This authority has done relatively well from NHB and £1.269m was included in CSB income in 2013/14. Whilst NHB seems set to remain in its current form, one of the DCLG consultations discussed elsewhere on the agenda is proposing to top slice £400m of funding from the NHB due to authorities to contribute to the Local Growth Fund which will be administered by Local Enterprise Partnerships (LEPs).

39. The Heseltine review (No Stone Unturned in Pursuit of Growth) made 89 recommendations to boost growth. Heseltine sees LEPs as key to driving forward locally-led growth and enterprise and recommended a Local Growth Fund of £80 billion over 4 years. The Government claims to be fully supportive of the report's recommendations, although the funding that has been compiled is only £2 billion per year. None of the funding is new money as £1.12 billion has come from transport schemes, £500 million from education and £400 million from the NHB.

40. The key issue in the consultation is how much individual authorities will lose to fund the £400 million. Question 2 proposes a method that applies the same percentage reduction to the NHB of all authorities. To achieve the required top slice of £400 million this would be approximately 35%, which in monetary terms for this council would be close to £800,000 in 2015/16 and approaching £1 million in subsequent years (when the scheme will have been in place for a full six years). Question 3 proposes an alternative for two tier areas that would see county councils lose all their NHB and districts making up the additional amount to reach £400 million overall. This proposal would reduce the loss from 35% to 19%, in monetary terms £425,000 in 2015/16 rising above £500,000 in later years.

41. Previously NHB for future years has not been anticipated in the MTFS. Given that NHB has remained a key aspect of the funding system, it is realistic now to balance the assumptions in the MTFS by both allowing for the largest reduction to fund the LEPs and by including anticipated amounts for NHB in subsequent periods. Based on the experience of the first four years of the scheme, an average annual increase is £445,000 and this is the amount that has been built into the MTFS for future years. This is a prudent amount as it is lower than the two most recent years and the signs of recovery in the economy indicate further growth is likely.

Development Opportunities

42. There is a separate Cabinet Committee charged with looking at and co-ordinating asset management issues so I do not intend to trespass on their territory. However, it is necessary to touch briefly on the number of development opportunities that currently exist in the district and their potential benefits. There is the possibility of a retail park in Loughton and a mixed use redevelopment of the St Johns area in Epping amongst the developments. The Council has had the requirement for capital resources to be used for revenue generating schemes as part of the Capital Strategy for some time. If schemes proceed it will only be after rigorous examination to ensure business cases make sense and a financial benefit is anticipated. The economic boost offered by such schemes could benefit the Council in several ways, mirroring the multiple threats of the double dip recession.

43. Given the lack of certainty at this time about which of the potential sites will progress, and indeed which of the schemes for a given site, the MTFS and capital projections do not include either any capital financing requirement or any revenue projections. The only budgets that are included for the developments are those that Members have already approved for preliminary consultancy and planning works.

Reducing Income Streams

44. Several of the key income streams are monitored on a monthly basis and the table below sets out the position at the end of August –

Activity	Annual Estimate	Estimate to end August	Actual to end August	Possible Shortfall
Building Control	£459,200	£216,870	£161,157	£130,000
Dev. Control	£541,250	£221,500	£206,467	£40,000
Land Charges	£179,940	£81,140	£83,374	£0
Licensing	£300,930	£103,010	£92,684	£25,000
Fleet Ops.	£242,500	£111,830	£97,060	£35,000

45. It is too early in the year to draw strong conclusions from this data as monthly trends do fluctuate between years and one or two large applications can make a big difference on development control. However, we are now nearly half way through the year and the start to 2013/14 has not been encouraging.

46. The other key income stream worth commenting on is the market at North Weald. As the operator was experiencing financial difficulties the Council agreed to a reduced rent, which included a profit share element if the income exceeds a given level in any individual week. So far the level of income necessary to trigger the profit share has not been reached in any week, although the market is continuing to trade on an adequate basis and still attracts approximately 200 traders each week. The estimates were based on a lower level of income but part of this reduction was attributed to the DDF so that the longer term trend could be evaluated before adjusting down the CSB. Given experience so far in 2013, it appears likely that the estimate for CSB income from the market will need to be reduced by £200,000 and the MTFS has been adjusted for this.

47. Given the shortfalls in income, not to mention the other financial pressures, it is imperative that the fees and charges are critically reviewed for opportunities. One key area that should be revisited is pay and display charges in the Council's off-street car parks. These charges have not been increased for five years and the study by Price Waterhouse Coopers in 2011/12 predicted that modest changes in the fee structure could boost income by more than £300,000.

Waste and Leisure Contract Renewals

48. Two of the Council's high profile and high cost services are provided by external contractors, SITA for waste and SLM for leisure. The current waste contract expires in November 2014 and a procurement exercise is underway for the new contract. A competitive dialogue procedure is being used to seek innovation and efficiency in the provision of this service. Market intelligence suggests it should be possible to procure the service at a lower cost than the current contract. However, at this early stage in the process it would not be prudent to build any savings in to the MTFS.

49. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. A Leisure Strategy is currently being prepared and as part of this serious consideration will need to be given to what is the appropriate role for local authorities in leisure provision in these difficult financial times. The budget book for 2013/14 includes net expenditure of over £2m for leisure facilities and this is not sustainable in the long term given the Council's financial position.

Organisational Review

50. The Chief Executive has issued a draft Head of Paid Service report to consult on an organisational restructure. It is anticipated that the report will go to Full Council before the end of the calendar year and so it should be possible to include the changes arising from it in the final figures for the 2014/15 budget. The current consultation version of the report does not include any financial data and so at the moment the MTFS has not been adjusted for any changes to the organisation. It is likely that the changes will assist with reductions in the CSB, although some initial DDF expenditure will probably be required.

DDF

51. The carry forward of £836,000 represents an increase of £390,000 on the £446,000 of slippage for 2011/12. Half of the increase arises from the Local Plan, for which the carry forward has trebled from £93,000 at the end of 2011/12 to £292,000 at the end of 2012/13. Requests for carry forward are scrutinised by this Committee at the June meeting each year, as part of considering the draft revenue outturn report, and it is accepted that DDF money will not automatically be carried forward. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions need to be answered over whether it was really a priority and if that money could have been used for a more urgent purpose.

52. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £1.416m of DDF available at 1 April 2018.

The Capital Programme

53. The Government has attempted to boost right to buy sales by increasing the discount that tenants can receive. This is starting to feed through as sales in 2012/13 were in double figures (13) for the first time in five years and there have been a further 18 sales in the first five months of 2013/14. The Capital Programme has been adjusted to reflect this higher level of Council house sales.

54. Significant receipts have previously been generated through the sale of other assets. Land values in some areas are starting to improve again and a number of potential projects are currently being evaluated. As non-housing receipts are not included in the estimates before completion has occurred no allowance has been made in the MTFS.

55. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 20 June 2013 highlighted that the variance of £2,000 was a substantial reduction on the previous year's figure of £2.766m. Non-housing expenditure was £306,000 below the estimate at £3.263m, whilst housing expenditure of £9.826m was £308,000 above the estimate of £9.52m. The slippage in the programme will be carried forward to subsequent periods.

A revised Medium Term Financial Strategy

56. Annexes 1 (a & b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £700,000 for the three years 2014/15, 2015/16 and 2016/17 before reducing to £200,000 for 2017/18. These savings would give total CSB figures for 2013/14 revised of £14.528m and 2014/15 of £14.069m.

57. This proposal sets DDF expenditure at £1.557m for the revised 2013/14 and £142,000 for 2014/15, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

58. No predicted non-housing capital receipts are being taken into account, as any

developments are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £13.898m at 1 April 2013 to £5.95m at 1 April 2018.

59. Previously the Council has taken steps to communicate the MTFS with staff, partners and other stakeholders. This process is still seen as good practice and a failure to repeat the exercise could harm relationships and obstruct informed debate. If Members agree, appropriate steps can be taken to circulate either the full strategy or a summarised version.

The Council Tax

60. The Government announced in June that it will continue to provide an incentive for authorities to freeze the Council Tax for both 2014/15 and 2015/16. Additional grant equivalent to a 1% increase in the Council Tax will be available and Councils seeking to raise Council Tax by more than 2% will have to conduct a referendum. From 2016/17 onwards it is assumed that future increases will not exceed 2.5%.

Conclusion

61. The Council is in a stronger financial position than had been anticipated. This is due to the greater level of savings in 2012/13 and reductions in underspent budgets. However, the scale of the challenges ahead is greater now than at any time in the past. Future funding has been hit by reductions in government grant, top slicing of the NHB and a drop in local income streams. There is also the substantial risk that retained business rates could fall either through continued shrinkage in the rating list or through successful appeals.

62. The MTFS approved in February 2013 was looking for net CSB savings of £1.3m but the updated version now requires an additional £1m to provide £2.3m of savings across the forecast period. If this level of savings is to be achieved tough decisions will be necessary on fees and charges and the future level of service provision, particularly in discretionary areas.

63. At the end of 2013/14 the balance on the general fund reserve is predicted to be £9.466m and the balance on the DDF to be just over £2m. This position of financial strength means the Council does not need to find all of the savings in one year but can take a measured approach to reduce net spending over a number of years.

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GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2013/14 - 2017/18

ORIGINAL 2013/14		REVISED FORECAST 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17	FORECAST 2017/18
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
15,171	Continuing Services Budget	15,171	14,863	14,538	14,085	13,206
-803	CSB - Growth Items	-643	-94	34	-296	-97
0	Net saving	0	-700	-700	-700	-200
14,368	Total C.S.B	14,528	14,069	13,872	13,089	12,909
984	One - off Expenditure	1,557	142	435	31	0
15,352	Total Net Operating Expenditure	16,085	14,211	14,307	13,120	12,909
-984	Contribution to/from (-) DDF Balances	-1,557	-142	-435	-31	0
-44	Contribution to/from (-) Balances	-204	-690	-1,330	-464	-189
14,324	Net Budget Requirement	14,324	13,379	12,542	12,625	12,720
	FINANCING					
6,849	Government Support (NNDR+RSG)	6,849	5,915	5,078	4,976	4,877
6,849	Total External Funding	6,849	5,915	5,078	4,976	4,877
7,464	District Precept	7,464	7,464	7,464	7,649	7,843
11	Collection Fund Adjustment	11	0	0	0	0
14,324	To be met from Government Grants and Local Tax Payers	14,324	13,379	12,542	12,625	12,720
	Band D Council Tax	148.77	148.77	148.77	152.46	156.33
	Percentage Increase %		0.0	0.0	2.5	2.5

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2013/14 - 2017/18

	REVISED FORECAST 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17	FORECAST 2017/18
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	9,670	9,466	8,776	7,446	6,982
Surplus/Deficit(-) for year	-204	-690	-1,330	-464	-189
Balance C/Forward	9,466	8,776	7,446	6,982	6,793
DISTRICT DEVELOPMENT FUND					
Balance B/forward	3,581	2,024	1,882	1,447	1,416
Transfer Out	-1,557	-142	-435	-31	0
Balance C/Forward	2,024	1,882	1,447	1,416	1,416
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	13,898	8,131	7,475	6,896	6,423
New Usable Receipts	174	234	294	294	294
Use of Capital Receipts	-5,941	-890	-873	-767	-767
Balance C/Forward	8,131	7,475	6,896	6,423	5,950
TOTAL BALANCES	19,621	18,133	15,789	14,821	14,159