Committee Agenda

Epping Forest District Council

Finance and Performance Management Cabinet Committee Thursday, 15th September, 2016

You are invited to attend the next meeting of **Finance and Performance Management Cabinet Committee**, which will be held at:

Committee Room 2, Civic Offices, High Street, Epping
on **Thursday, 15th September, 2016**
at **6.00 pm** .

Glen Chipp
Chief Executive

Democratic Services Officer	R. Perrin Tel: (01992) 564532 Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors G Mohindra (Chairman), S Stavrou, A Lion, C Whitbread and R Bassett

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PLEASE NOTE THE START TIME OF THIS MEETING

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

   (Director of Governance) To declare interests in any item on this agenda.

3. **MINUTES (Pages 5 - 8)**

   To confirm the minutes of the last meeting of the Committee held on 14 July 2016.

4. **KEY PERFORMANCE INDICATORS - 2016/17 QUARTER 1 PERFORMANCE (Pages 9 - 14)**

   (Senior Performance Improvement Officer) To consider the attached report (FPM-007-2016/17).

5. **CONSULTATION ON BUSINESS RATES RETENTION (Pages 15 - 40)**

   (Director of Resources) To consider the attached report (FPM-008-2016/17).

6. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2015/16 (Pages 41 - 62)

(Director of Resources) To consider the attached report (FPM-009-2016/17).

7. QUARTERLY FINANCIAL MONITORING 2016/17 (Pages 63 - 84)

(Director of Resources) To consider the attached report (FPM-010-2016/17).

8. RISK MANAGEMENT - CORPORATE RISK REGISTER (Pages 85 - 108)

(Director of Resources) To consider the attached report (FPM-011-2016/17).

9. ANNUAL GOVERNANCE REPORT (Pages 109 - 112)

(Director of Resources) To consider the attached report (FPM-012-2016/17).

10. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, requires that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

11. EXCLUSION OF PUBLIC AND PRESS

Exclusion: To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Background Papers: Article 17 - Access to Information, Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection for four years after the date of the meeting one copy of each of the documents on the list of background papers.

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EPPING FOREST DISTRICT COUNCIL
COMMITTEE MINUTES

Committee:	Finance and Performance Management Cabinet Committee	**Date:**	Thursday, 14 July 2016
Place:	Committee Room 1, Civic Offices, High Street, Epping	**Time:**	7.00 - 8.00 pm

Members Present: Councillors G Mohindra (Chairman), R Bassett, A Lion and S Stavrou

Other Councillors: Councillors J M Whitehouse

Apologies: C Whitbread

Officers Present: R Palmer (Director of Resources) and R Perrin (Democratic Services Officer)

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10. Declarations of Interest

(a) Pursuant to the Council's Code of Member Conduct, Councillors G Mohindra, S Stavrou, A Lion and J M Whitehouse declared a personal interest in item 4 - Financial Issues of the agenda, in so far as it relates to the Local Council Tax Support payable to Parish/Town Councils as they are Parish/Town Councillors. They understood that there are no binding decisions being made by the Sub-Committee at the meeting and therefore would advise that when the decisions were due on this later in the budget cycle, they would seek a dispensation if required.

11. Minutes

RESOLVED:

That the minutes of the meeting held on 16 June 2016 be taken as read and signed by the Chairman as a correct record.

12. Financial Issues Paper

The Director of Resources advised that the report provided a framework for the 2017/18 Budget and updated Members on a number of financial issues that would affect the Authority in the short to medium term. He advised that the information, new legislation and regulations that were normally available by now, to inform the Medium Term Financial Strategy (MTFS) had not been forth coming, owing to the EU referendum. The result of the referendum to leave the European Union had resulted in a new Prime Minster and Cabinet being appointed, which in turn could effect legislation and policies coming forward and could reduce funding prospects for local government.

The Director of Resources reported other areas of current financial uncertainty and risk to the Authority as follows;

- Central Government Funding – the Settlement Funding Assessment (SFA) reduced over the next four years by £2.45m (45%), resulting in a negative Revenue

Support Grant and the Core Spending Power, which considers the Government's thinking on Council tax and the New Homes Bonus was likewise to reduce across the same period by £2.05m (13.5%). Local Council Tax Support was also affected by the reduction in the Revenue Support Grant and this would result in the removal of the grant to town and parish councils completely by 2019/20. Furthermore, the Secretary of State for Communities and Local Government advised local authorities in March 2016 that they could accept the 4-year figures as fixed for SFA, if accompanied with an efficiency plan to show "how this greater certainty could bring about opportunities for further savings". This funding would be honoured "barring exceptional circumstances" and also contained a cautionary note that future levels of funding to those who preferred not to have a four year settlement could not be guaranteed.

- Business Rates Retention – The Council had received over £0.75m in 2014/15 for Section 31 grants and anticipated £0.7m in 2015/16 and £0.4m in 2016/17. The business rates pool, which the Council became a member of for 2015/16 and 2016/17 had no levy paid to the Treasury and despite the requirement of safety net funding for two members in 2015/16, the Council had been still £118,000 better off. There were still 400 appeals outstanding with the Valuation Office and a total provision of £4 million. Although this had been felt prudent there was still an outstanding appeal for a rateable value of £6 million, which could result in a significant shortfall. The Collection Fund for 2015/16 had less than £30,000 difference to the estimate, which required no amendments to MTFS. Furthermore, the announcement of 100% local retention of business rates being retained within local government and no amounts of either base funding or growth being paid over to the Treasury with the policy being fiscally neutral, would mean that any additional funding would be matched by a transfer of additional responsibilities that had previously been centrally funded. Therefore through the reform process local government as a whole would need to try and limit the amount of risk that was transferred and that some form of safety net was maintained. The new system was to be implemented by 2019/20 but this now looks unlikely.
- Welfare Reform – No significant change had been proposed to this council's scheme of local council tax support for 2017/18, to allow sufficient time to understand the consequences of the changes to maximum level of support being reduced to 75%, no major reductions in tax credits and the introduction of the National Living wage for 2016/17. The Benefits Cap reduction by a further £6,000 to £20,000 was likely to cause greater changes to people's behavior and working patterns and would be phased in across the country during 2016/17. The early indications were that several hundred claimants in this district would be affected with the effects more evident in 2017/18. The Universal Credit continued to progress slowly with no clarity over the time period and process for the migration of the existing housing benefit claims to UC or the role local authorities would perform under the new system. Finally, the savings achieved by the Department for Work and Pensions through reducing the grant paid to local authorities to administer housing benefit had a modest reduction of £22,000 in 2015/16 and £73,000 (16%) for 2016/17.
- New Homes Bonus - The consultation on the proposed changes to NHB closed on 10 March 2016 and no further information had emerged on the future policy direction. The potential changes when comparing the MTFS projections with the Government's Core Spending Power figures showed amounts to be lower in 2017/18 (£2.2m), 2018/19 (£1.4m) and increasing slightly in 2019/20 (£1.6m).
- Development Opportunities – The retail park at Langston Road continued to progress with the building firm to be appointed by Cabinet in July 2016.The mixed use re-development of the St John's area in Epping was taking much longer than anticipated for the acquisition of the land from ECC and other possibilities for Waltham Abbey and North Weald were being evaluated. There would need to be a different way of thinking going forward because capital funding would no longer be freely available in 2016/17.

- Transformation – The key accommodation review would report back to Cabinet in September and strong progress had been made with the customer contact project. Further consideration would be required over the period of the MTFS for ongoing resources. The Invest to Save budget of £0.5m had proven popular and additional funding had been necessary.
- Waste and Leisure Contracts – The waste contractor Biffa, remain confident that they would be able to fulfil their obligations at the price tendered and the additional resources would remain in place until the transition of four day service had been completed satisfactorily. The Leisure Management Contract was unlikely to be let before the extension of the old contract had expired and so a negotiation would be needed to further extend the current contract. The savings would now not arise until 2017/18, although it was evident from the competitive dialogue that the savings were likely to exceed those currently allowed for and this would be kept under review as the budget developed.
- Miscellaneous – It was noted that Members should be advised of the consequences of a slowdown in the economy, in particular the related income streams, increased pressure on services with greater spending on benefits and homelessness. The pension contributions for the next three years were currently being calculated for March 2016 valuations and following the referendum the actuaries could assume lower investment returns and require higher contributions to compensate.

In conclusion the Director of Resources advised that the Council remained in a strong financial position as the overspend in 2015/16 was not significant and the Council had substantial reserves to address the greater political uncertainty and higher level of financial risk, resulting from the referendum. It would appear that the Brexit result, may take much more of the Government's and Civil services time and with a change in Prime Minster and Cabinet Members policies may change direction. It was in the Council's interest to make prudent assumptions and look to see how the Council's finances could be best safeguarded for the future. The updated MTFS set out a programme of net savings which should be achievable and the Council's financial strength allows for the necessary savings over the medium term. The process would also be assisted by having the Invest to Save fund to help with initial funding or investment and should allow some more creative solutions to be developed.

Councillor J M Whitehouse asked that Town and Parish Councils be informed before October 2016 with how the Council wished to proceed with reduction in Local Council Tax Support, so that they could factor it into their budget circle. The Director of Resources advised that he would email the Town and Parish Council's with the Cabinet decision once it had been agreed.

The Cabinet Committee considered the recommendations, noting that further information would come forward when the Secretary of State for Communities and Local Government, the Rt Hon Sajid Javid and the Secretary of State for Work and Pensions, the Rt Hon Damian Green had established themselves.

Recommended:

(1) That the establishment of a new budgetary framework including the setting of budget guidelines for 2017/18 be set including;

(a) The ceiling for Continuing Services Budget net expenditure be no more than £13.107m including net growth;
(b) The ceiling for District Development Fund expenditure be no more than £259,000;

(c) The balances continue to be aligned to the Council's net budget requirement and that balances be allowed to fall no lower than 25% of the net budget requirement; and
(d) The District Council Tax not be increased, with Council Tax for a Band 'D' property remaining at £148.77. .

2. That a revised Medium Term Financial Strategy for the period to 2019/20 be developed accordingly;

3. That communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders be undertaken;

4. That the reductions in the parish support grants be reduced in equal stages to achieve complete removal by 2019/20 be taken forward; and

5. That the Government's offer of a four-year funding settlement be taken forward.

Reasons for Decisions:

By setting out clear guidelines at this stage the Committee established 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 had been carefully considered.

Other Options Considered and Rejected:

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 would reduce the time available to produce strategies that comply with the guidelines.

13. Any Other Business

It was noted that there was no other urgent business for consideration by the Sub-Committee.

CHAIRMAN

Report to: Finance and Performance Management Cabinet Committee

Report reference: FPM-007-2016/17
Date of Meeting: 15 September 2016

Epping Forest District Council

Portfolio: Governance and Development Management

Subject: Key Performance Indicators - 2016/17 Quarter 1 Performance

Officer contact for further information: Barbara Copson (01992 564042)

Democratic Services Officer: Rebecca Perrin (01992 564532)

Recommendations/Decisions Required:

(1) That the Committee reviews Quarter 1 performance for the Key Performance Indicators adopted for 2016/17;

(2) That the Committee identifies any Key Performance Indicators for 2016/17 that require in-depth scrutiny or further report on performance.

Executive Summary:

The Council is required to make arrangements to secure continuous improvement in the way in which its functions and services are exercised, having regard to a combination of economy, efficiency and effectiveness. As part of the duty to secure continuous improvement, a range of Key Performance Indicators (KPI) relevant to the Council's service priorities and key objectives, is adopted each year. Performance against all of the KPIs is reviewed on a quarterly basis.

Reasons for Proposed Decision:

The KPIs provide an opportunity for the Council to focus attention on how specific areas for improvement will be addressed, and how opportunities will be exploited and better outcomes delivered. It is important that relevant performance management processes are in place to review and monitor performance against the key objectives, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of slippage or under performance.

Other Options for Action:

No other options are appropriate in this respect. Failure to review and monitor performance could mean that opportunities for improvement are lost and might have negative implications for judgements made about the progress of the Council.

Report:

1. A set of thirty-seven Key Performance Indicators (KPI) was adopted for 2016/17 in March 2016. Whilst this represents an increase of 1 from last year's KPI set the increase

arises from the waste recycled and waste composted being split into two separate indicators to better monitor performance.

2. The KPIs are important to the improvement of the Council's services and comprise a combination of former statutory indicators and locally determined performance measures. The aim of the KPIs is to direct improvement effort towards services and the national priorities and local challenges arising from the social, economic and environmental context of the district.

3. Progress in respect all of the KPIs is reviewed by Management Board and overview and scrutiny at the conclusion of each quarter, and service directors review KPI performance with the relevant portfolio holder(s) on an on-going basis throughout the year. Select Committees are each responsible for the review of quarterly performance against specific KPIs within their areas of responsibility.

4. Improvement plans are produced for KPIs, setting out actions to be implemented in order to achieve target performance, and to reflect changes in service delivery. In view of the corporate importance attached to the KPIs, the improvement plans are agreed by Management Board and are also subject to ongoing review between the relevant service director and Portfolio Holder over the course of the year.

Key Performance Indicators 2016/17 – Quarter 1 Performance

5. The position with regard to the achievement of target performance for the KPIs at the end of quarter 1 (30 June 2016), was as follows:

(a) 25 (68%) indicators achieved target;
(b) 12 (32%) indicators did not achieve target, although
(c) 3 (8%) of these indicators performed within the agreed tolerance for the indicator.
(d) 29 (78%) of indicators are currently anticipated to achieve year-end target and a further 2 (5%) are uncertain whether they will achieve year-end target.

6. A headline Q1 KPI performance report for 2016/17 is attached for the consideration of the Committee as Appendix 1 to this agenda. Detailed performance reports in respect of each of the KPIs are considered by the select committees with responsibility for those service areas. .

7. The 'amber' performance status used in the KPI report identifies those indicators that missed the agreed target for the year, but where performance was within an agreed tolerance or range (+/-). The KPI tolerances were agreed by Management Board when targets for the KPIs were set in February 2016.

8. The Committee is requested to review Q1 performance for the 2016/17 set of KPIs. Any matters raised by the Committee in respect of KPI performance, will be reported to the appropriate select committee.

Resource Implications: None for this report

Legal and Governance Implications: None for this report; however performance management of key or new high level initiatives is important to the achievement of value for money.

Safer, Cleaner, Greener Implications: None for this report

Consultation Undertaken: The indicators have been considered by Management Board (3 August 2016) and relevant Select Committees during September and October 2016.

Background Papers: KPI submissions are held by the Performance Improvement Unit. Detailed KPI calculations and supporting documentation held by service directorates.

Impact Assessments:

Risk Management: None for this report

Due Regard Record

This section shows which groups of people are affected by the subject of this report. It sets out how they are affected and how any unlawful discrimination they experience can be eliminated. It also includes information about how access to the service(s) subject to this report can be improved for the different groups of people; and how they can be assisted to understand each other better as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

There are no equality implications arising from the recommendations of this report. Relevant implications arising from actions to achieve specific KPI performance will have been identified by the responsible service director.

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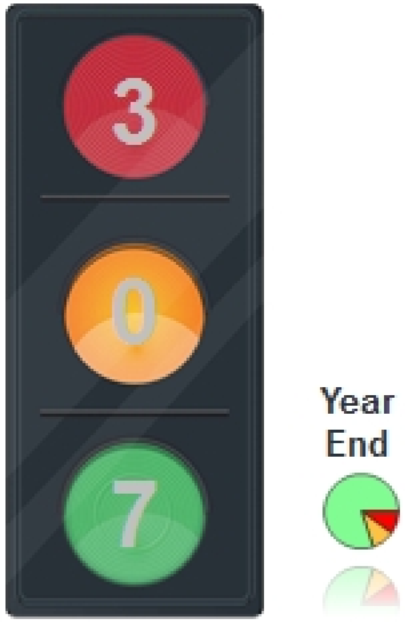
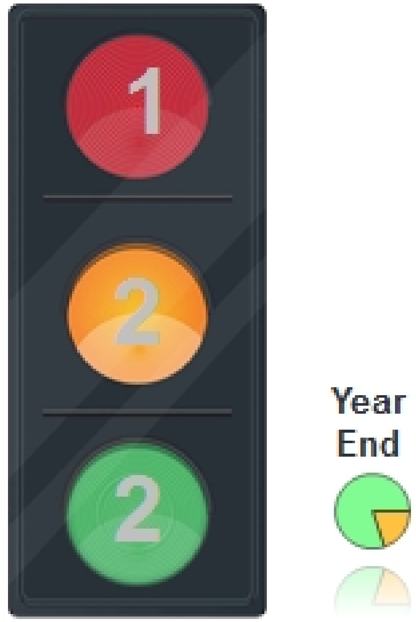
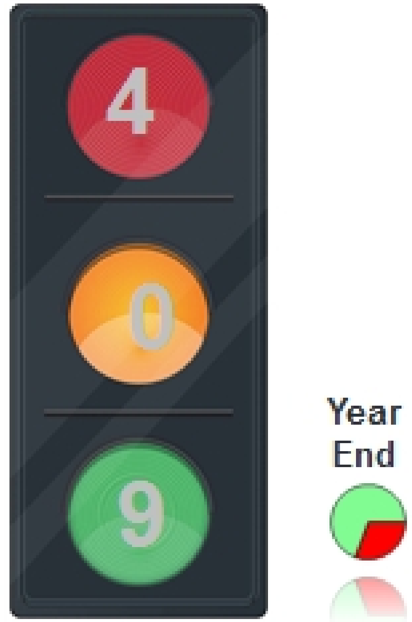
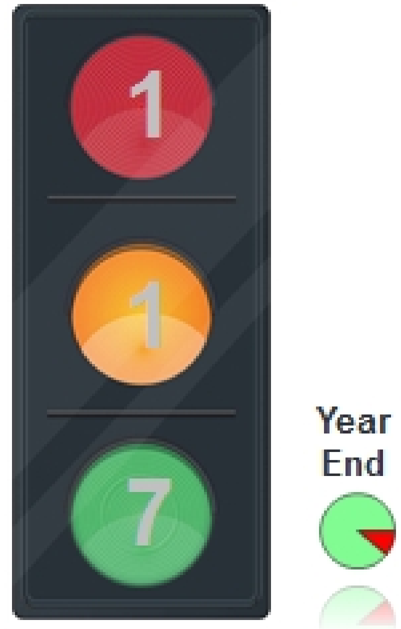
Epping Forest District Council Key Performance Indicators 2016/17 - Summary Dashboard & Performance Report:

Overall summary of KPIs achieving target	Communities Directorate	Governance Directorate	Neighbourhoods Directorate	Resources Directorate

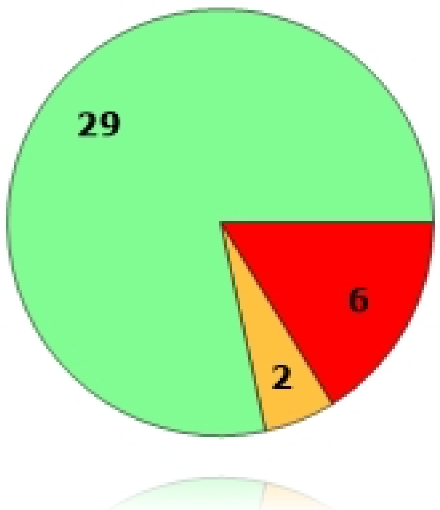








Predicted Level of Year End Target Achievement (All KPIs)



Headlines - Reflecting on our performance

Q1 (2016/17)

There are 37 KPIs for this year.

25 (68%) achieved target and 12 (32%) missed target, however of these, 3 (8%) were marginal and performed within their amber tolerance.

29 (78%) are currently anticipated will achieve target at the end of the year.

Quarterly Indicators		Quarter 1		Quarter 2		Quarter 3		Quarter 4		Is year-end target likely to be achieved?
		Tgt	Actual	Tgt	Actual	Tgt	Actual	Tgt	Actual	
Communities Quarterly KPIs										
COM001	(Housing rent) (%)	99.00%	101.59%	99.00%		99.00%		99.00%		Yes
COM002	(Void re-lets) (days)	37	49	37		37		37		Uncertain
COM003	(Tenant satisfaction) (%)	98.00%	100.00%	98.00%		98.00%		98.00%		Yes
COM004	(Temp. accommodation) (no.)	140	103	140		140		140		No
COM005	(Non-decent homes) (%)	0.0%	0.0%	0.0%		0.0%		0.0%		Yes
COM006	(Modern Homes Std) (%)	825	587	1,650		2,475		3,300		Yes
COM007	(Emergency repairs) (%)	99.00%	99.15%	99.00%		99.00%		99.00%		Yes
COM008	(Responsive repairs) (days)	7.00	4.87	7.00		7.00		7.00		Yes
COM009	(Emergency repairs) (%)	98.00%	98.00%	98.00%		98.00%		98.00%		Yes
COM010	(Calls to Careline) (%)	97.50%	99.90%	97.50%		97.50%		97.50%		Yes
Governance Quarterly KPIs										
GOV004	(Major planning) (%)	90.00%	92.86%	90.00%		90.00%		90.00%		Yes
GOV005	(Minor planning) (%)	90.00%	88.68%	90.00%		90.00%		90.00%		Yes
GOV006	(Other planning) (%)	94.00%	94.69%	94.00%		94.00%		94.00%		Yes
GOV007	(Appeals - officers) (%)	20.0%	21.4%	20.0%		20.0%		20.0%		Uncertain
GOV008	(Appeals - members) (%)	50.0%	57.1%	50.0%		50.0%		50.0%		Yes
Neighbourhoods Quarterly KPIs										
NEI001	(Non-recycled waste) (kg)	95	101	196		296		400		No
NEI003	(Litter) (%)	8%	8%	8%		8%		8%		No
NEI004	(Detritus) (%)	10%	10%	10%		10%		10%		No
NEI005	(Neighbourhood issues) (%)	95.50%	98.82%	95.50%		95.50%		95.50%		Yes
NEI006	(Fly-tip investigations) (%)	92.00%	99.39%	92.00%		92.00%		92.00%		Yes
NEI007	(Fly-tip: contract) (%)	90.00%	93.72%	90.00%		90.00%		90.00%		Yes
NEI008	(Fly-tip: non-contract) (%)	90.00%	94.67%	90.00%		90.00%		90.00%		No
NEI009	(Noise investigations) (%)	90.00%	88.76%	90.00%		90.00%		90.00%		Yes
NEI010	(Increase in homes) (no.)	41	13	69		87		230		Yes
NEI011	(Commercial rent arrears) (%)	2.5%	2.0%	2.5%		2.5%		2.5%		Yes
NEI012	(Commercial premises let) (%)	98.00%	98.89%	98.00%		98.00%		98.00%		Yes
NEI013	(Waste recycled) (%)	30.00%	22.00%	30.00%		30.00%		30.00%		Yes
NEI014	Waste composted (%)	30.00%	37.64%	30.00%		30.00%		30.00%		Yes
Resouces Quarterly KPIs										
RES001	(Sickness absence) (days)	1.90	1.50	3.64		5.24		7.50		No
RES002	(Invoice payments) (%)	97%	98%	97%		97%		97%		Yes
RES003	(Council Tax collection) (%)	27.27%	27.61%	51.99%		77.09%		97.00%		Yes
RES004	(NNDR Collection) (%)	28.48%	28.83%	53.46%		78.67%		97.70%		Yes
RES005	(New benefit claims) (days)	22.00	21.28	22.00		22.00		22.00		Yes
RES006	(Benefits changes) (days)	6.00	6.91	6.00		6.00		6.00		Yes
RES009	(Website Availability) (%)	99.60%	99.82%	99.60%		99.60%		99.60%		Yes
RES010	(Website Broken Links) (%)	95.00%	99.89%	95.00%		95.00%		95.00%		Yes
RES011	(Website Navigation) (%)	79.90%	80.51%	79.90%		79.90%		79.90%		Yes

Report to the Finance & Performance Management Cabinet Committee

Epping Forest District Council

Report reference: FPM-008-2016/17
Date of meeting: 15 September 2016

Portfolio: **Finance**

Subject: **Consultation on Business Rates Retention**

Responsible Officer: **Bob Palmer** **(01992 564279).**

Democratic Services: **Rebecca Perrin** **(01992 564532).**

Recommendations/Decisions Required:

1. **That the response to the consultation be based on the Society of District Council Treasurers draft response; and**

2. **That the exact responses to each question be determined by the Director of Resources in consultation with the Finance Portfolio Holder.**

Executive Summary:

In July the Department for Communities and Local Government (DCLG) issued a consultation entitled "Self-sufficient local government: 100% Business Rates Retention". The consultation runs for twelve weeks to 26 September.

A brief summary of the consultation paper is provided in the report below, with the draft response of the Society of District Council Treasurers attached as a separate appendix. The draft response was prepared by the consultancy LG Futures who have confirmed that the document can be published as part of this agenda.

The consultation is at a high level as DCLG are still seeking to establish how the scheme will work. No detailed authority specific exemplifications have been provided to support the various proposals so it is not clear if this Council will benefit from any given alternative. The full consultation document runs to 50 pages and so has not been provided as part of the agenda but can be viewed in the consultation section of the DCLG website.

Reasons for Proposed Decision:

To determine the responses to be made to the consultation.

Other Options for Action:

Members could decide to not respond, to respond in part or to respond in full to each of the thirty six questions.

Report:

1. In 2013/14 there was a significant change to the system of funding for local authorities with the introduction of business rate retention. For each subsequent year from 2013/14 the significance of retained business rates within the funding structure has increased. This direction of travel has been clear with a strong emphasis from Government on local authorities becoming self-financing and reducing their reliance on central grant funding. The ultimate aim of Government policy here is to introduce 100% business rates retention by the end of the parliament.

2. The size of the challenge in achieving the Government's ambitions should not be underestimated as it requires a completely new system of financing to be designed and implemented. This is reflected in the high level of a number of the consultation questions for example –

Question 1 – Which responsibilities do you think are the best candidates to be funded from retained business rates?
Question 7 – What is the right balance in the system between rewarding growth and redistributing to meet changing need?
Question 20 – What level of income protection should a system aim to provide?

3. While the system is still at this design stage it is impossible to say if this district will gain or lose from the system overall or the many alternatives contained within it. However, some of the questions do have alternatives that are likely to benefit district councils in general and these are highlighted in the draft response provided by LG Futures. The draft response also provides useful background and context and is a good basis for any response that Members decide is appropriate to make to the consultation.

4. If Members support the use of the LG Futures document it is proposed that the Director of Resources should complete the detailed response in consultation with the Finance Portfolio Holder. Member's views are requested.

Resource Implications:
As this process is still at the system design stage it is too early to say what the resource implications will be.

Legal and Governance Implications:
Changes following the consultation will be included in subsequent Local Government Finance Bills and are likely to come into effect from 1 April 2020.

Safer, Cleaner and Greener Implications:
None.

Consultation Undertaken:
The draft response provided by LG Futures has been widely supported by the Executive of the Society of District Council Treasurers.

Background Papers:
None.

Risk Management:
There is a risk that further significant reductions in funding could arise through this process. However, at this stage it is too early to attempt to assess the likelihood or size of such reductions.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
02/09/16 Director of Resources	The report is about responding to a Government consultation. Whilst the response is aimed at reducing the overall reduction in resources it does not deal with the use of those resources and so has no equalities implications.

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Lee Geraghty
Deputy Director

E. lee.geraghty@lgfutures.co.uk

Briefing Note:

100% Business Rates Retention Consultation:

SDCT Draft Response

August 2016

FINANCE WITH VISION

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1. Introduction

1.1. On the 5 July 2016, DCLG published the consultation paper *"Self-sufficient local government: 100% Business Rates Retention".* The paper seeks views regarding the implementation of 100% Business Rates Retention for local government. The consultation paper can be accessed by clicking here.

1.2. This briefing note provides a draft response to the consultation on behalf of the Society of District Council Treasurers (SDCT).

Background

1.3. It is the intention of government to introduce 100% Business Rates Retention to local government by the end of the parliament. It is expected that at the same time the government will update the relative need formulae (i.e. that determine the amount of resources that an authority will have if it collects at its business rates target). A discussion paper on the review of the Baseline Need figure was also published on 5 July 2016 and a separate draft response to this paper is also being prepared for the SDCT.

Structure of this note

1.4. The consultation paper has 4 sections that include 36 questions it is seeking responses on. This note provides an overview of the four sections, the relevant questions within and a suggested view of the SDCT. It will identify where the SDCT may want to advise members to respond in a similar manner and others where local priorities could be of greater consequence.

1.5. LG Futures is able to offer further support to individual districts in assessing the potential implications of the issues locally and in responding to the consultation. It will also be holding regional events in the first half of September to assist local authorities in understanding the main issues, challenges and risks arising from the consultation to assist them in effectively making a response.

Responding to the consultation

1.6. The deadline for responses is Monday 26 September 2016. Responses can be sent by email to:

BRRconsultation@communities.gsi.gov.uk

1.7. Or by post to:

Business Rates Retention Consultation
Local Government Finance
Department for Communities and Local Government
2nd floor, Fry Building
2 Marsham Street
London SW1P 4DF

2. Background & context

2.1. The paper includes a Ministerial foreword from Greg Clark, the Secretary of State for Communities and Local Government. Within the foreword he reaffirms the Government's commitment to 100% business rates. The government emphasises that it is not looking for "a one size fits all solution" with the Minister encouraging authorities "to consider how the system can be tailored to local needs and opportunities".

2.2. This potential for local tailoring also increases the importance of the role of stakeholders in being aware of what would be best locally and contributing to the debate. The consultation paper offers them an opportunity to do this and therefore authorities and their respective groups will need to consider carefully how they respond to the questions asked.

Current 50% BRR system

2.3. The current BRR scheme was introduced in April 2013. It allowed local government to retain 50% of business rate revenues, with the remaining 50% retained by central government. In order to equalise between areas with different business rate taxbases there is a system of top ups and tariff in place.

2.4. The system allows 50% of business rates growth to be retained by local government. Within that individual authorities that pay tariffs pay a levy on growth of up to 50% which is used to fund a safety net system, protecting authorities with a reduction in retained income of more than 7.5% of their assessed need level.

2.5. The government expects the new system will retain the top up / tariff approach and include a safety net, but there will not be a levy.

2.6. The paper also confirms that the move from 50% to 100% Business Rates Retention (BRR) will see a new responsibilities given to local government, with certain central government grants phased out.

2.7. The paper sets out the following timetable for 100% BRR.

Consultation ending 26 September 2016	Consultation on the approach to 100% business rates retention.
Autumn 2016	There will be a further, more technical, consultation on specific workings of the reformed system.
Early 2017	As per the Queen's Speech, the Government will introduce legislation in this Parliamentary session to provide the framework for the reforms; with the expectation that the legislation to be introduced later in the Parliamentary session.
April 2017	Piloting of the approach to 100% business rates retention to begin.
By end of the Parliament	Implementation of 100%

3. Devolution of responsibilities

3.1. This chapter of the paper considers the additional responsibilities that local government will take on alongside the additional 50% business rates income.

3.2. The paper seeks views regarding which responsibilities should be transferred and how the system may differ in areas with combined authorities and devolution deals. It sets out the criteria that have been developed in assessing the suitability for transferring responsibilities; these being that the devolution of a responsibility should:

- Build on the strengths of local government.
- Support the drive for economic growth.
- Support improved outcomes for service users or local people.
- Be made with consideration for the medium-term financial impact on local government.

3.3. The paper indicates that these criteria are meant as a guide only and it is not necessary for the transfer of a responsibility to meet each of the criteria outlined.

3.4. Each criteria has a number of sub headings and those of particular importance include:

- There should be an appetite from local government for the responsibility to be delivered at a local level. Hopefully this could mean an unwanted responsibility could not be forced on.
- The national cost and demand for any new responsibility should be relatively predictable and stable over time, relative to the business rates funding stream.
- The distribution of funding between local authorities should be relatively stable over time.

3.5. These last two sub criteria are important in ensuring 100% BRR would be fiscally neutral to local government. However the extent to which a funding stream is suitable to be financed by 100% BRR, based on these criteria, is subjective. For example, within the current 50% BRR is Localised Support for Council tax funding which has costs closely linked to the economic prosperity of the national and local economy.

3.6. A list of responsibilities have been identified as a possible fit against the criteria; these are set out below. This list is not meant to be exhaustive, but rather the starting point for debate.

- Revenue Support Grant
- Rural Services Delivery Grant
- Greater London Authority Transport Grant
- Public Health Grant
- Improved Better Care Fund
- Independent Living Fund
- Early Years
- Youth Justice
- Local Council Tax Support Administration Subsidy

- Housing Benefit Pensioner Administration Subsidy
- Attendance Allowance

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Potential view of SDCT

Whilst individual authorities may have their own view on the suitability of certain funding streams, the principle of how they are rolled in is more important. The need for transparency regarding the amounts rolled in and future years' assumptions regarding these amounts will be critical.

For example, in 2013/14 a number of grants were rolled into the Settlement Funding Assessment, including localised support for council tax. However, in subsequent years, the reductions in local government funding reduced the SFA amount, and with it, elements of the grants rolled in.

3.7. In addition to the funding streams above there are further funding streams that may be suitable which form part of agreed devolution deals. The paper lists these functions and which are pooled at a Combined Authority level, these being:

- Investment funds for devolution deals
- Adult Education Budgets
- Transport Capital Grants
- Local Growth Fund

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

Potential view of SDCT

With the different deals and local arrangements in place / being negotiated, this is an area that will vary across districts / areas.

3.8. Under the new burdens doctrine additional responsibilities given to local government are funded either through Revenue Support Grant or Section 31 grant. Government propose to continue with the use of Section 31 grant for any further new burdens post 100% BRR.

Question 5: Do you agree that we should continue with the new burdens doctrine post-2020?

Potential view of SDCT

Whilst the New Burdens Doctrine is essential in ensuring services transferring to local government are accompanied by sufficient funding, the determination of the initial and future funding levels is key.

To date, the Section 31 Grant issued to compensate for changes affecting business rates income (e.g. 100% Small Business Rate Relief and the cap on the multiplier) has been fair. Although, the objective way in which the amounts could be calculated has been a contributory factor in allowing the grant to be determined with little dispute.

Where new responsibilities are passed over the local government, the nature of these responsibilities and the costs associated need to be fully funded and calculated in a transparent manner.

Where central government policy is seeking to change the nature of these responsibilities, the problem of how the changes are implemented should not be the problem of local government. For example, the transfer of the localised support for council tax required local government to make changes to the existing scheme in order to make up the shortfall in funding that was passed from central to local government.

4. The business rates system

4.1. This chapter of the paper considers: resets, the treatment of Combined Authorities and Mayoral areas, how risk is to be managed and the operation of the safety net.

Resets

4.2. It is the view of the government that a fixed period for resetting the system (i.e. adjusting local Business Rates Baselines in line with actual business rate proceeds) would be preferable to a system based on a subjective decision by government.

4.3. In the paper the decision regarding the period of the reset of the Business Rates Baseline is coupled with that of relative need. The paper suggests that too short a period between resets and the incentive for growth is weakened (and by this we are assuming that some or all of the growth will be taken from individual authorities and potentially even local government overall) and too long a period and relative need no longer reflects the Baseline Need amounts.

4.4. Of course, not all areas achieve growth and the paper quite rightly points out that more frequent resets would prevent authorities with a decline in business rates from having a prolonged period where funding levels are lower than calculated of Baseline Need.

4.5. The paper identifies the following potential methods for the reset:

a) A full reset including all achieved growth *frequently* (e.g. every five years) – the paper believes this would provide a growth incentive (i.e. keeping any growth for five years) whilst not allowing too great a period between relative need assessments.

b) A full reset including all achieved growth *infrequently* (e.g. every 20 years) – this approach would allow authorities to keep the benefits of business rates growth over a much longer period, but could also leave authorities on the safety net for a similar period of time. This approach would provide local authorities with a greater incentive for growth (and stability over the use its proceeds). However there is also of course the risk that after such a period, removing the higher level of income from authorities who have achieved growth may be problematic i.e. require too big of a reduction and therefore disincentives a reset taking place (in a similar way that council tax revaluation was eventually scrapped).

c) A partial rest of the system on a frequent basis – this option would see a reset of relative need, but not a redistribution of all growth (i.e. still allowing relative need differences to be built in to the system, but providing an element of a longer term incentive to promote local growth).

4.6. What is not discussed is the separation of these two, which would be possible. i.e. the Business Rates Baseline could be reset every 10 years whilst need could be determined every year based on an update of key data such as population levels and the council taxbase. Authorities could still retain local growth whilst the Need figure could still capture key net expenditure drivers such as population change, deprivation and council taxbase.

Question 6: Do you agree that we should fix reset periods for the system?

Individual authorities may want to respond to this question by suggesting there should not be a Reset (see Question 8 below). The para below is drafted on the basis that if Resets are to happen, a fixed period is perhaps preferable for financial planning purposes. The length of the period is also discussed in Question 8 below.

Potential view of SDCT

Having a fixed period does allow an authority to know when their current position against the NDR baseline is due to end and therefore allows some degree of financial planning (compared to waiting for a subjective decision from central government). However, it is also important that the process for a Reset is set out in advance on not open to manipulation in future years. For example, changing the number of years the Baseline is calculated on.

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

The view below assumes that districts would favour keeping resources away from the relative need formulae. This assumption is based upon (i) local share for districts remains a higher proportion that its relative need share and (ii) districts have a relatively lower level of need than other authorities (based on the tier split) plus relative need data.

Potential view of SDCT

Pre 2013/14, there was a fixed amount of resources available to local authorities (i.e. Formula Grant) and therefore for an authority to gain resources others had to lose. So when a shift in Relative Need occurred, resources were moved between authorities. However, since 2013/14 there is now an added dimension i.e. the amount of resources created locally through business rates growth.

Whilst it is acknowledged that Relative Need does need to be recalculated (how often is subject to debate), it does not follow that growth achieved above the national Settlement Funding Amount (SFA) needs to be included in any reassessment of Relative Need. Instead, the amounts with the SFA figure could be re-assessed and growth could be retained outside of the relative need calculation.

Furthermore, whilst for 2020 there is to be a simultaneous “Reset” and reassessment of Local Need, this does not need to be the case in the future. For example, Need (and therefore the Baseline Need amount) could be updated annually, bi-annually or 5 yearly to reflect data change whilst business rates (and the NDR Baseline figure) could be Reset on a different timeline i.e. 5, 10 or 20 years (see Question 8).

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

An individual district's view on a Reset may vary across authorities and potentially over time i.e. depending on where they are compared to their NDR Baseline at an given point (with those below wanting a new lower target and those above wanting no Reset). However, hopefully the points raised below will be accepted by all districts as necessary in creating a system that does not create a funding lottery over the longer term, based on the methodology for NDR Baseline

Potential view of SDCT

The purpose of business rates retention is to create an incentive for authorities to promote economic growth. Therefore, by only allowing authorities to retain growth for a limited period limits the incentive and potentially the resources required to allow authorities to finance material sums locally to promote growth.

This argument would suggest that growth should be retained on a permanent basis (or over a sufficiently long period). However, the extent to which authorities have created "growth" (if defined by amount collected above NDR Baseline) and the extent to which it is merely a consequence of a particular methodology for setting the NDR Baseline should be recognised. Therefore, the most appropriate course of action may be to include a partial reset into the system to ensure:

(i) Windfall gains (from favourable baselines) are restricted to a limited number of years

(ii) Authorities with unfavourable baselines (due to the timing of appeals being settled for example) are not left in the positon of needing safety net support over a prolonged period.

This is opposed to what would be could be considered a "Full Reset" and "No Reset" i.e.

No Reset - NDR Baselines continue to be increase by the increase to the multiplier only and NDR growth is retained indefinitely (with only Baseline Need being updated).

Full Reset – the NDR Baseline (and therefore Baseline Need) increases at the reset to reflect the growth achieved between resets. This would either (i) allow central government to roll in more responsibilities into the SFA or (ii) the growth would be redistributed based on Relative Need (i.e. as per the issue in Question 6 above).

A "Partial Reset" could mean that local government is to keep the gains made above the Baseline (albeit distributed across local government via the NDR Baseline), thereby creating the incentive for the sector. However, the incentive for individual authorities may be significantly weaker if they know that longer term growth elsewhere is a more important factor that local growth.

A partial reset of this nature would also not differentiate between an authority that has invested significantly (and needs the proceeds of growth to pay for the investment) and those that have merely gained from the Reset methodology.

The partial reset therefore needs to:

- Retain growth in local government
- Allow authorities to retain "real growth" (in order to create the right incentive for investment)
- Stop longer term windfall gains or unrealistic Baselines that leave authorities below their NDR Baseline / at the safety net, due to the methodology for the Reset only.

In effect, it needs to allow local authorities to retain the rewards / resources due from actual growth, whilst at the same time ensure funding disparities (through the methodology in determining the NDR Baseline) are kept to a minimum. Potential ways of addressing this could be to allow authorities to ring fence growth in specific sites (as with Enterprise Zones) that would be exempt from Resets. Whilst this would increase complexity, it provide authorities with confidence that investment would be affordable / worthwhile.

If this ring fencing was in place it would allow Resets to be more frequent, thereby reducing the impact of large gains or losses from the Reset methodology. It would also mean there would be less of a need for any damping / transitional funding, as baseline should not shift by that great an amount.

4.7. The responses of local authorities may be linked to their belief that they can achieve longer terms growth and / or their desire to have greater local control / responsibility to create the right incentive for local growth in the future.

Top ups and Tariffs

4.8. It is the intention of government to maintain the current top up and tariff system, although the papers does state that there is a desire to set up a system that minimises the redistribution of rates (whilst not disadvantaging areas with small business rate taxbases. It also states that top ups and tariffs will be fixed between resets (you would imagine this would be with similar adjustments to the current system for multiplier increases and revaluation – see below) to promote growth.

4.9. The approach set out in the paper would suggest the government is ruling out changes to the top up / tariffs for external reasons e.g. population changes, damping or funding reductions, that would not alter the incentive for growth.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Potential view of SDCT

Yes. The current system of tariffs and tops ups allows for the required redistribution of business rates income across the country.

Impact of revaluations

4.10. The government propose to use the same approach planned for 2017 in future revaluations i.e. adjust top up / tariff amounts to make revaluation revenue neutral.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

There may be certain districts that could gain from this (i.e. those where growth in RV will be higher than the national average). However, the response below is written for the majority that will not (based on the assumption that growth in London's RV will be significantly higher). Also, for those that are above the national average, the complexity that allowing growth to be kept form revaluations would bring, may be unwanted.

Potential view of SDCT

The scheme already allows authorities to gain from business rates growth. If revaluation is to remain revenue neutral nationally (through the current practice of adjusting the multiplier value) then gains made by authorities will be at the expense of losses elsewhere. This will mean business rates income becomes a relative amount, with gains dependent on whether local changes in RV are above or below the national average. This will increase the complexity of the system and reduce the incentive to authorities, as local taxbase growth (and the gains that could be expected) may be undermined by changes in RV elsewhere in the country.

Combined Authorities and directly elected Mayors

4.11. The paper discusses the following options to provide an enhanced role for Combined Authorities and directly elected Mayors in achieving growth under 100% BRR:

- How "growth" should be redistributed.
- Whether a single area wide Baseline Need figure should be given, with local governance arrangements for allocating all resources.
- A role in determining the Baseline Need figure.

4.12. The second of these options would mean Combined Authorities having certain area wide responsibilities and receiving a Baseline Need amount to reflect the need to fund the responsibilities. The authority would then receive a local share of business rates income (e.g. 10%) with a top up or tariff amount used to adjust the figure. This would be similar to the current arrangement for the GLA, county and fire services.

4.13. This would then give the Combined Authority a link to business rates income (and therefore growth / decline) and potentially a co-ordinating role on area wide issues such as economic development.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Tier Splits

4.14. The paper states that further consideration is required on the final splits for 100%, with these being in part subject to which responsibilities are rolled in. This reference to new responsibilities rolled in coupled with the desire to minimise top ups and tariffs may be indicative of an approach where splits are more aligned with expenditure. This is not the case under the current system in two tier areas i.e. districts received 80% of the local share and counties only 20%, whereas expenditure is typically more than a 4 to 1 ratio the other way.

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?
The tier splits issue is contentious. For districts that feel that they will gain from business rates post Reset (and these may not be the same as those that are gaining now), they would want their share to increase from 40% (or at worst stay the same). Whereas those that feel they would rather have less risk / reward may want to suggest a lower percentage would be better (to align better with Baseline Need).

4.15. With the future potential for the responsibilities for fire to be taken on by Police and Crime Commissioners driven by new legislation the paper asks whether fire authorities should remain part of the business rates retention scheme (as police funding is not part of the scheme). The paper does not discuss the potential for police funding to become part of the scheme.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?
The response below is made from a practical perspective, rather than from any gain or loss in

funding that may result (which would be minimal anyway).

Potential view of SDCT

The exclusion of fire funding from the business rates retention scheme would assist in reducing the complexity of the scheme. For the small amounts involved, it creates unnecessary work for billing and precepting authorities in (i) making payments, (ii) communicating budget monitoring and (iii) final accounts.

Having one less preceptor on business rates would reduce this workload.

4.16. The paper reaffirms the previous announced commitment that Enterprise Zones will remain in place and with the original funding guarantee (100% growth guaranteed for 25 years).

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Potential view of SDCT

In order to allow authorities the incentive to invest for growth, the scheme should provide some mechanism to safeguard increased business rate revenues for specified areas (in the same was as Enterprise Zones currently). This would protect the additional resources forecast from being taken at a partial reset, thereby allowing authorities to take a longer term view on investments. It would also allow Resets to continue to address windfall gains / authorities at the safety net (as per Q8 above).

Sharing Risk

4.17. The government is seeking views as to how best manage the risk of income volatility under 100% BRR.

4.18. It identifies that income volatility occurs both due to i) appeals and ii) businesses entering or leaving the taxbase. Under 50% BRR, risk is managed via appeals provisions and the safety net. The potential to manage the risk arising from appeals and the operation of a safety net at a sub national level could be potentially be introduced under 100% BRR. The paper includes suggestions that have been made to government as to how this could be achieved i.e.

- Removing higher risk items (e.g. power stations) from local lists;
- Placing higher risk items at a regional level (so that risks are spread, but the incentive for growth is still retained within a region).

4.19. The second of these options would create a three tier list as opposed to the current two tiers i.e. central and local, these being:

Local List – as now (with riskier items transferred to an Area list)

Central List – as now

Area List – for Combined authorities that would include the riskier items transferred from local lists. This would be different to the current arrangements for multi-tier areas (where a percentage of all rates is paid upwards), with income from specific lines paid upwards instead. How this would work in terms of which body would determine an appeal provision for example would need to be determined e.g. the cash flow implications on district councils of power station appeals can be significant.

Question 15: Would it be helpful to move some of the ‘riskier’ hereditaments off local lists? If so, what type of hereditaments should be moved?

Certain districts (that believe they will benefit from Power stations etc) may have the opposite view from below. However, for the majority of districts I believe the response is sensible.

Potential view of SDCT

The increased variability of large hereditaments, such as power stations, has led to some authorities losing and others gaining; depending on factors such as when the power stations were turned off, when the baseline was set and subsequent appeals. These gains and losses are not the result of local actions. For this reason, hereditaments of this nature should be removed from authorities’ lists.

>>> depending on the view locally . . .

However, to include them on regional lists or at a combined authority level may be appropriate, given the role the combined authority may play in securing growth / attracting such developments.

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

Potential view of SDCT

>>> depending on the view locally . . .

As per above, larger hereditaments may be more appropriate to sit at a Combined Authority level. It also may be appropriate for any developments funded across a number of authorities to be included at a Combined Authority level. This would allow greater transparency in terms of the associated resource flows from pan authority schemes.

4.20. The paper highlights current issues local authorities face regarding appeals risk i.e. the time taken to forecast levels, the difficulties in acutely predicting outcomes. It also suggests that since 2013/14 authorities "have been budgeting to spend less than they might otherwise have spent as a result of provisions associated with appeals uncertainty".

4.21. Whilst it is the case that some authorities have been prudent (and perhaps some have been overly so) with their appeals provision, this may not have been reflected in budgets i.e. appeals provisions are determined at NNDR3 and the net accumulated deficits (based on NNDR1 forecasts) would suggest budgeted expenditure may not necessarily be in line with business rates income after taking into account provisions.

4.22. Possible solutions discussed in the paper to the problem of appeals are:

- To provide more help locally to set aside the right amount.
- Pool provision risk at an area level.
- Pool appeal risk at a national level.

4.23. The paper does not mention the two consultations that relate to the appeal mechanism and revaluation (see paragraph 3.14) which also may help address this issue i.e. the potential for quicker resolution of appeals and less of them (if for example, self-assessment went ahead).

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Potential view of SDCT

The management of appeals at a higher level (sub-regional, regional or even at a national level) would reduce the exposure to this risk for individual authorities. However, it could potentially increase the reliance on others for information thereby reducing the ability to forecast local resources and also create delays in the monitoring / accounting process.

If appeals were to be dealt with at a higher level, a national system is perhaps the most appropriate, as this would not lead to regional variations in appeals (compared to the allowance given) leading to shifts in resources. It would also increase the transparency between the allowance made by central government and the actual level of appeals.

However, as per Q18 below, the potential forthcoming changes to the appeals and revaluation processes may reduce the number of value of appeals going forward, thereby not requiring a change in how they are managed.

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Potential view of SDCT

The changes being planned around the appeals process, and potentially the valuation process, should (hopefully) increase the speed of appeals and reduce their number. At present the speed of appeals being dealt with is not acceptable. This results in funding being tied up in the Collection Fund, pending the outcome of appeals.

The Safety Net

4.24. The government would still want a safety net within 100% BRR. However, it is interested in views as to what geographic level it is applied and how the level is set.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Potential view of SDCT

As per Q17, any pooling at a higher level will increase the need for information flows between authorities and also mean events elsewhere impact directly local resources. This will create delays and also reduce the extent to which an authority can forecast (and account) for its own resources.

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Potential view of SDCT

Protection, in the form of a safety net, should be set at a national level and applied at an individual authority level. Where authorities act together, as under the current pooling arrangements, they should be allowed to set their own internal safety net levels (whilst also qualifying for the national safety net at the standard rate).

5. Local tax flexibilities

5.1. This chapter covers the design and operation of the new tax flexibilities that authorities will have under the new system. Authorities will be able to reduce the multiplier and Combined Authority Mayors will be able to levy a supplement on business rates.

Ability to reduce the business rates multiplier

5.2. For single tier areas the decision to reduce the multiplier is already aligned with the authority that would meet the cost. However, for multi-tier areas a decision needs to be made as to:

- How the decision would be made (e.g. by the billing authority).
- Which authorities would meet the cost (e.g. is it split across all billing and precepting authorities).
- If the decision should be similar to the council tax system (i.e. each responsible for their own element of the bill) with the billing and precepting authorities each having the ability to reduce the rate (and if so do they meet the costs of their own decisions only?).
- The role of Combined authorities.
- How the system should work for Combined Authorities, Fire Authorities and in London.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Potential view of SDCT

Local authorities should have the ability to reduce the multiplier, the costs of which should be shared (based on the relevant proportions) between billing and precepting authorities. Whilst this does create a governance issue in terms of one authority setting a rate that others have to abide by, it needs to be recognised that the authority will be lowering the rate in order to achieve increased business rate revenues in the future.

5.3. At present local authorities have the power to target business rate reliefs. The Government see the new power as having the ability to change the overall multiplier. They are therefore seeking views as to how the two powers would interact.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Potential view of SDCT

Where reductions / discounts are offered, they will be based on financial and economic reasons that have gone through Officer and Member scrutiny to ensure they are appropriate for the area. Local authorities should therefore have sufficient scope across the two powers to determine the nature of reductions/ discounts given i.e. whether by geography, business type, duration and magnitude.

5.4. Once given the issue of how a multiplier could be increased back to the national level needs to be determined i.e. should it be done it one step, or does it need to be phased to avoid large one-off increases.

Question 23: What are your views on increasing the multiplier after a reduction?

Potential view of SDCT

How the multiplier is increased, after a reduction, should be set out clearly in the terms when a multiplier is reduced initially. Whether this be in a single year or over a number of years and the amount of notice given.

5.5. Further issues included in the paper are the role of Mayoral Combined Authorities and the need for safeguards in neighbouring authorities; although the paper suggests the latter is not needed. The paper seeks views on these issues and any wider aspects of the power.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

Infrastructure Levy

5.6. Views are sought on the additional power of Combined Authority Mayors to raise the multiplier by up to 2 pence to fund infrastructure projects. The paper asks for views on:

- Whether a minimum rateable value needs to be set for the application of the levy? and if so, whether its value needs to be set nationally or regionally? (so as not to restrict certain areas tax raising powers)
- How the power should interact with the existing Business Rates Supplement Powers?
- What approval is needed when LEPs have different boundaries to Combined Authority Mayors?
- How the duration of a levy would be set and how would it be reviewed?
- What is classified as infrastructure expenditure?
- Should there be a single levy to fund multiple projects or multiplier levies funding individual projects?

5.7. The paper identifies a number of further suggestions that have been made regarding the levy, these being:

- Extending the power beyond Combined Authority Mayors – but the paper states that the Government is clear that this new power will be for Combined Authority Mayors only.
- Extending consultation beyond LEPs.
- Including a discount power for Business Improvement Districts.
- Extend the use of the levy to fund other types of expenditure e.g. economic development and housing.

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Question 28: What are your views on arrangements for the duration and review of levies?

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

6. Accountability and accounting

6.1. This chapter focuses on the accountability and accounting of the reformed funding system.

6.2. The government would like to move away from what it perceives to be central government controlled funding decisions (through the Local Government Finance Report) and the uncertainty of annual funding announcements. It also seeks views as to where the balance between national and local accountability should fall.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

Potential view of SDCT

In establishing the new system, the process for resetting the baseline and timelines involved should be clearly set out. This was not the case when the system was set up in 2013/14.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

6.3. Whilst there would be no central government payment required from Collection Fund accounts under 100% BRR, the government believe they are still a necessary feature of local government finance i.e. billing and precepting authorities will continue for both council tax and business rates and a number of disclosures in the Collection fund Account are required by statute. The paper seeks views as to whether this should be the case.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Potential view of SDCT

The Collection Fund account is vital to the local authorities in damping the impact of income variability in year (for both Council Tax and Business Rates). Whilst income levels do need to be monitored, the Collection Fund account provides a buffer that (i) allows authorities to plan for any changes to its resource levels and (ii) allows preceptors to know their resource levels for the year (and therefore reduces the burden on billing authority and preceptor regarding updates).

6.4. The requirement to produce a balanced budget is part of the local authority financial control framework. Government do not want to see this requirement removed, but believe that the way that local authorities calculate a balanced budget no longer aligns with the way they actually manage their finances. The paper therefore seeks views on how this could be improved.

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Potential view of SDCT

Local authorities are constrained by the need to set an annual balanced budget. Whilst it is possible the vast majority of authorities would not move away from this practice, even if flexibilities were increased, having the ability to do so may be critical for the limited number with a specific set of circumstances.

There are a number of factors that now mean increased freedoms around budgeting are now more appropriate, including the variability of local authority income and its increasing sensitivity to the economic cycle; alongside the policies such as Business Rate Retention and New Homes Bonus that provide incentives linked to investment

6.5. The paper highlights the role of the current NNDR1 and NNDR3 forms, suggesting what whilst still necessary in some form, some elements may no longer apply. It therefore seeks views on how these forms could be improved

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

>>> Officers responsible for the collection of business rates / submission of data to answer.

Report to: Finance and Performance Management Cabinet Committee

Report reference: FPM-009-2016/17
Date of meeting: 15 September 2016

Epping Forest District Council

Portfolio: Finance

Subject: Annual Outturn Report on the Treasury Management and Prudential Indicators 2015/16

Responsible Officer: Simon Alford (01992 564455)

Democratic Services Officer: Rebecca Perrin (01992 564532)

Recommendations/Decisions Required:

(1) That Members note both the Treasury Management Outturn Report for 2015/16 and the outturn for Prudential Indicators shown within the appendices; and

(2) That Members recommend to Cabinet the proposed minor changes to the Council's Treasury Management Strategy Statement and Investment Strategy.

Executive Summary:

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2015/16, and the actual Prudential Indicators for 2015/16.

During the year the Council has financed all of its capital activity through capital receipts, capital grants and revenue contributions. There has been no additional borrowing in the year to add to the £185.456m taken out previously through the Public Works Loan Board (PWLB) to finance the payment in relation to the self-financing of the HRA. The Council achieved its targets for its treasury and prudential indicators.

In constructing the Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2018/19 some very prudent restrictions were applied to some classes of investments. It has become evident that these restrictions are too prudent and cause operational difficulty in managing the Council's cash flow. Some minor changes are proposed that will ease the operational difficulties without adding significantly to the risk profile of the Council's investments.

This report and the appendices will be considered by the Audit and Governance Committee on 19 September.

Reasons for Proposed Decision:

Any amendment to the Treasury Management Strategy Statement and Investment Strategy requires approval from Cabinet and ultimately Council. The report and appendices are presented for noting.

Other Options for Action:

Members could decide that either no amendments to the Treasury Management Strategy Statement and Investment Strategy are appropriate or that amendments different to those proposed should be made.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for reporting on the treasury outturn on the financing and investment activity for the previous year.

2. The report attached at Appendix 1 shows the Treasury Management Outturn Report for 2015/16 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital activity for the year and how it was financed

3. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available, or a decision is taken not to apply capital resources, the expenditure will give rise to a borrowing need.

4. The Council has fully financed its capital expenditure. Similarly to revenue expenditure, capital expenditure is split between the statutory Housing Revenue Account (HRA) and other expenditure. The actual capital expenditure and financing is shown below in the table.

	2015/16	2015/16	**2015/16**
Capital Expenditure	Estimated £m	Revised £m	**Outturn £m**
Non-HRA capital expenditure	7.476	32.012	**23.488**
HRA capital expenditure	18.952	17.905	**13.811**
Total Capital Expenditure	**26.428**	**49.917**	**37.299**
Financed by:			
Capital grants	1.395	3.393	**3.725**
Capital receipts	8.002	16.373	**19.046**
Revenue	17.031	17.597	**14.528**
Borrowing	0	12.554	**0**
Total Resources Applied	**26.428**	**49.917**	**37.299**
Closing balance on:			
Capital Receipts	4.662	7.523	3.788
Major Repairs Reserve	5.683	9.523	12.291

The impact on the Council's indebtedness for capital purposes

5. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council has previously borrowed £185.456m to finance the payment to Government for housing Self-Financing. This resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No further borrowing has been incurred in 2015/16.

CFR	2015/16 Estimated £m	2015/16 Revised £m	**2015/16 Outturn £m**
Non-HRA	59.6	43.5	**29.6**
HRA	155.1	155.1	**155.1**
Closing balance	**214.7**	**198.6**	**184.7**

6. The Council's policy on Minimum Revenue Provision (MRP), a mechanism for the amount to be set aside from revenue for the repayment of the debt principal, was approved by Council on 17 February 2015.

7. The Authority's CFR at 31 March 2012 became positive as a result of Housing self-financing. This would normally require the local authority to charge MRP to the General Fund in respect of non-HRA capital expenditure funded from borrowing. CLG has produced regulations to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP.

The Council's overall treasury position

8. The table below shows the Council's treasury position for 2015/16.

Treasury position	31/3/2015 £m	**31/3/2016 £m**
Total external Debt	**185.456**	**185.456**
Short Term Investments	62.4	51.6
Fixed Term Investments	5.0	0
Total Investments	**67.7**	**51.6**
(Net Borrowing) / Net Investment Position	**(118.056)**	**(133.856)**

Icelandic Investment

9. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank, a UK registered and regulated subsidiary of an Icelandic bank, at that time.

10. During 2015/16 a further dividend was received from the administrator of £99,979.39. The return is now 98% and it is likely that a further distribution will be received in 2016/17. It is estimated that final recovery will be close to 100%.

Prudential Indicators

11. The Council confirmed its adoption of the CIPFA Code of Treasury Management at its Council meeting on 17 February 2015. The Code was originally adopted on 22 April 2002.

a) **Authorised Limit** – This is the maximum amount of external debt that can be outstanding at one time during the financial year.

b) **Operational Boundary** – This is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity for the financial year.

c) **Upper Limits for Interest Rate Exposure** – This allows the Council to manage the extent to which it is exposed to changes in interest rate.

d) **Maturity Structure of Fixed Rate Borrowing** – This is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

e) **Total principal sums invested for periods longer than 364 days** – This is to allow the Council to manage the risk inherent in investments longer than 364 days.

12. The table below shows the outturn against the strategy.

	2015/16 TMSS	**2015/16 Outturn**
a) Authorised limit	£230m	**£185.456m**
b) Operational boundary	£219m	**£185.456m**
c) Upper limits for fixed rate exposure		
- Debt	100%	**83%**
- Investment	(100%)	**(71)%**
Upper limits for variable rate exposure		
- Debt	25%	**17%**
- Investment	(75%)	**(29)%**
d) Maturity structure of fixed rate borrowing		
- Under 12 months	0% - 100%	**0%**
- 12 months to 5 years	0% - 100%	**0%**
- 5 years to 10 years	0% - 100%	**17%**
- 10 years to 20 years	0% - 100%	**0%**
- 20 years to 30 years	0% - 100%	**83%**
e) Total principal sums invested for periods longer than 364 days	£30m	**£0m**

Changes to the Treasury Management Strategy Statement and Investment Strategy

13. Since the approval of the Strategy by Council on 18 February 2016 it has become apparent that three of the limits within the Strategy are excessively prudent and obstruct the efficient management of the Council's cash flow. Therefore the following changes are proposed -

Local Authorities as a group limit – increase from £20m to £25m.
Money Market Funds as a group limit – increase from £15m to £20m.
NatWest (the Council's banker) – increase from £2.5m to £5m.

14. The Council's treasury advisers, Arlingclose, have been consulted on the proposals and have confirmed that they are acceptable as long as money is only left with NatWest overnight.

15. Any change to the Strategy requires approval from Council so Members are asked to recommend the changes to Cabinet before they progress to Council.

Resource Implications:
Interest rates stayed low throughout 2015/16 which resulted in the investment interest of £0.551m. The outturn was in line with the revised estimate of £0.528m.

Legal and Governance Implications:
The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2015/16);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:
None.

Consultation Undertaken:
The Council's external Treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2015/16 and the Treasury Management Strategy for 2015/16 which was approved by Council on 17 February 2015.

Risk Management:
As detailed in the appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people are affected by this report which is not directly service related.

Annual Treasury Outturn Report 2015/16

1. Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Council's Treasury Management Strategy for 2015/16 was approved by full Council on 17th February 2015 which can be accessed on :-

http://rds.eppingforestdc.gov.uk/documents/s60735/Treasury%20Management%20Statement.pdf

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. External Context

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from $67 a barrel in May 2015 to just under $28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly in economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in significant volatility in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Local Context

At 31/03/2016 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £185m, while usable reserves and working capital which are the underlying resources supporting investments were £93m.

At 31/03/2016, the Council had £185m of borrowing and £52m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £10m.

The Council has an increasing CFR over the forthcoming years due to the capital programme, but minimal investments and will therefore be required to borrow up to £16m over the forecast period. Probably from other Local Authorities.

Borrowing Strategy

At 31/03/2016 the Council held £185m of loans, as part of its strategy for funding Housing Self-Financing.

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Council determined it was more cost effective in the short-term to use internal resources instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive. Although the use of internal resources has meant that it has not yet been necessary to use this source of finance.

Borrowing Activity in 2015/16

	Balance on 01/04/2015 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2016 £m	Avg Rate % and Avg Life (yrs)
Capital Financing Requirement (CFR)	184.7				184.7	
Short Term Borrowing[1]	0	0	0	0	0	
Long Term Borrowing - Maturity loans - EIP loans - Annuity Loans	185.5	0	0	0	185.5	3% - 21.5 years
TOTAL BORROWING	185.5	0	0	0	185.5	
Other Long Term Liabilities	0	0	0	0	2.9[2]	
TOTAL EXTERNAL DEBT	185.5	0	0	0	188.4	
Increase/ (Decrease) in Borrowing £m					2.9	

Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charged for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

[1] Loans with maturities less than 1 year.

[2] Notional Finance Lease associated with Loan to Waste Contractor. Accounting standards require the Council to show the substance over form of certain transactions. An asset for the Biffa Vehicles is set up in the Council's balance sheet. This entry is the corresponding liability.

Annual Treasury Outturn Report 2015/16

Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Council's investment balances have ranged between £54.4 and £72.1 million.

The Department for Communities and Local Governments Investment Guidance gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2016 £m	Avg Rate/Yield (%) and Avg Life years)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities - Unrated banks building societies	47.4	110.5	117.8	40.1	0.57% 143 days
Long term Investments - Banks and Building Societies with ratings of A+ or higher - Local Authorities	5	0	5	0	1.3% 365 days
UK Government: - DMADF - Treasury Bills - Gilts	0	0	0	0	
Money Market Funds	15	38	41.5	11.5	0.46%
TOTAL INVESTMENTS	67.4	148.5	164.3	51.6	
Increase/ (Decrease) in Investments £m				(15.8)	

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

Credit Risk
Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	A+	5.10	AA-	3.98
30/06/2015	A+	4.53	AA-	4.09
30/09/2015	A+	5.34	AA-	4.44
31/12/2015	A+	5.19	AA-	4.34
31/03/2016	AA-	4.33	AA-	3.80

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security. NB AA- is better than A+.

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Council made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

National Australia Bank (NAB) announced its plans to divest Clydesdale Bank, its UK subsidiary. NAB listed Clydesdale on the London Stock Exchange and transferred ownership to NAB's shareholders. Following the demerger, Fitch and Moody's downgraded the long and short-term ratings of the bank.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. The council's treasury advisor, Arlingclose Ltd, recommended suspending VW (as a non-financial corporate bond counterparty) for new investments. As issues surrounding the scandal continued, there were credit rating downgrades across the Volkswagen group by all of the ratings agencies. Volkswagen AG is now (as at 11/04/16) rated A3, BBB+ and BBB+ by Moody's, Fitch and S&P respectively. Volkswagen International Finance N.V is rated A3 and BBB+ by Moody's and Fitch respectively and Volkswagen Financial Services N.V. is now rated A1 by Moody's. Arlingclose continues to monitor the situation.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Council therefore increasingly favoured secured investment options or diversified alternatives such as non-bank investments and pooled funds over unsecured bank and building society deposits.

Annual Treasury Outturn Report 2015/16

Budgeted Income and Outturn

The average balance for investment was £59.6m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.70%. Investments in Money Market Funds generated an average rate of 0.46%.

The Council's budgeted investment income for the year was £528k. The Council's investment outturn for the year was £551k.

Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2015/16, which were approved on 17th February 2015.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount or the proportion of net principal borrowed or interest payable will be:

D = Debt I=Investment	2015/16 %	2016/17 %	2017/18 %
Upper limit on fixed interest rate exposure	100 D/100 I	100 D/100 I	100 D/100 I
Actual	83 D / 71 I		
Upper limit on variable interest rate exposure	25 D/75 I	25 D/75 I	25 D/75 I
Actual	17 D / 29 I		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Annual Treasury Outturn Report 2015/16

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	100%	0%	0%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	17%
10 years and within 20 years	100%	0%	0%
20 years and within 30 years	100%	0%	83%
30 years and within 40 years	100%	0%	0%
40 years and within 50 years	100%	0%	0%
50 years and above	100%	0%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual	£0m		

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit score	A-	A+

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 3 months	£20m	£38m

Investment Training Undertaken

King and Shaxson training on new investment methods and the custody account they offer, October 2015 – one Officer.

Members Treasury Training 14th January 2016.

Changes to Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2018/19

Since the approval of the Strategy above by the Council on the 18th February 2016.

The following counter party limits require amendment.

These were prudently changed in accordance with the recommendations of Arlingclose, the Council's Treasury Advisers. But experience has shown that they are too prudent and cause operational difficulties in managing the Council's cashflow.

NatWest Limit increase from £2.5m to £5m.

Local Authorities as a Group Limit increase from £20m to £25m

Money Market Funds as a Group increase from £15m to £20m

Arlingclose have been consulted on these proposals and have confirmed that in their view the changes are acceptable as long as money is only left with NatWest on an overnight basis.

Annual Treasury Outturn Report 2015/16

Appendix 1

Prudential Indicators 2015/16

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m
General Fund	**23.488**	2.071	1.151
HRA	**13.811**	22.003	20.176
Total Expenditure	**37.299**	**24.074**	**21.327**
Capital Receipts	19.046	4.537	3.212
Government Grants	3.725	0.390	0.355
Reserves	6.477	0	0
Revenue	8.051	7.912	10.305
Borrowing	0	0	0
MRA	0	11.235	7.455
Total Financing	**37.299**	**24.074**	**21.327**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	**29.6**	59.6	59.6
HRA	**155.1**	155.1	155.1
Total CFR	**184.7**	**214.7**	**214.7**

The CFR is forecast to rise by £30m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m
Borrowing	**185.456**	190	200
Finance leases	**0**	0	0
Total Debt	**185.456**	**190**	**200**

Total debt is expected to fall below the CFR during the forecast period. The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	**219**	219	219
Total Debt	**219**	**219**	**219**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	**230**	230	230
Total Debt	**230**	**230**	**230**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	**0.51**	-0.83	-1.22
HRA	**16.64**	15.03	14.47

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2015/16 Estimate £**	**2016/17 Estimate £**	**2017/18 Estimate £**
General Fund - increase in annual Band D Council Tax	**-0.28**	0.15	-0.06
HRA - increase in average weekly rents	**0.02**	0.01	-16.8

Adoption of the CIPFA Treasury Management Code: The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice*, on the 22nd April 2002.

HRA Limit on Indebtedness: The Authority's HRA CFR should not exceed the limit imposed by the Department for Communities and Local Government at the time of implementation of self-financing. The Authority complied with this requirement.

HRA CFR Limit:	£185.457m		
	2015/16 Actual £m	**2016/17 Estimate £m**	**2017/18 Estimate £m**
HRA CFR	**155.1**	155.1	155.1
Difference	**30.357**	30.357	30.357

Appendix 2

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below. Please note that the PWLB rates below are Standard Rates.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015		0.50		0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015		0.50		0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015		0.50		0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015		0.50		0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015		0.50		0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015		0.50		0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015		0.50		0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015		0.50		0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015		0.50		0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015		0.50		0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016		0.50		0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016		0.50		0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016		0.50		0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average		**0.50**		**0.38**	**0.45**	**0.43**	**0.54**	**0.76**	**0.99**	**0.96**	**1.14**	**1.43**
Maximum		**0.50**		**0.48**	**0.58**	**0.57**	**0.66**	**0.92**	**1.02**	**1.17**	**1.44**	**1.81**
Minimum		**0.50**		**0.17**	**0.35**	**0.43**	**0.51**	**0.55**	**0.84**	**0.68**	**0.73**	**0.85**
Spread		--		**0.31**	**0.23**	**0.14**	**0.15**	**0.37**	**0.18**	**0.49**	**0.71**	**0.96**

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

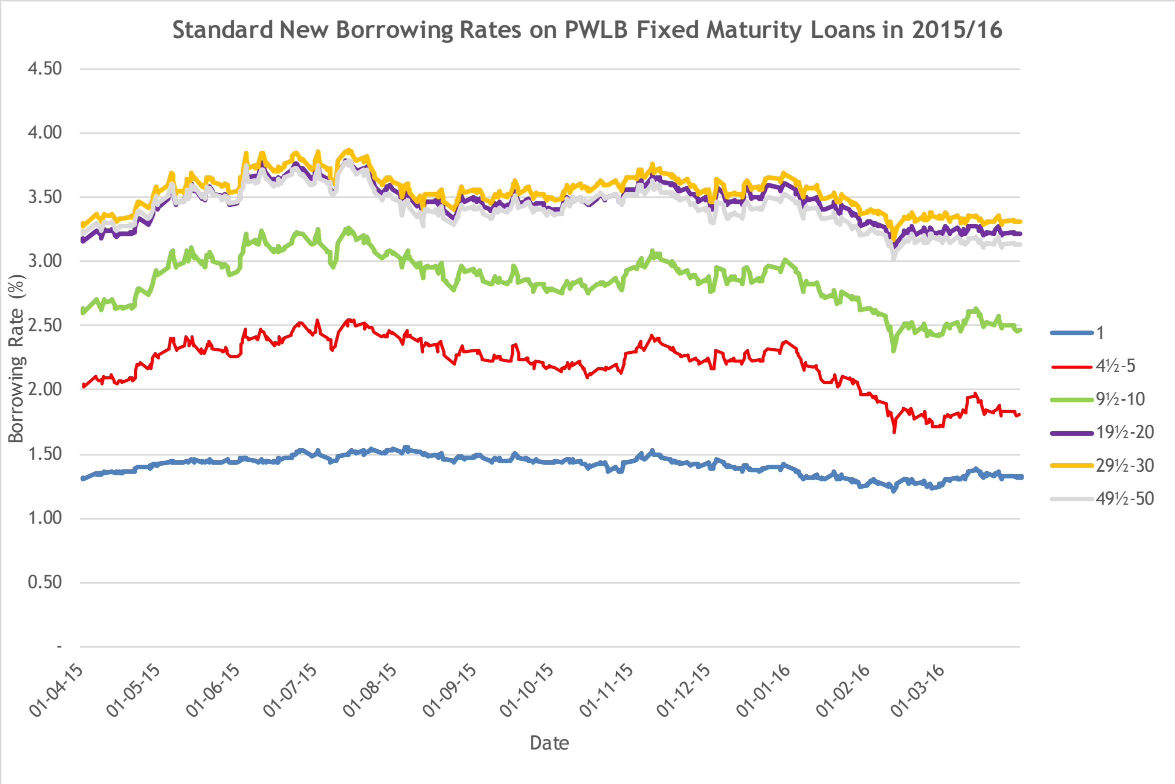

Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

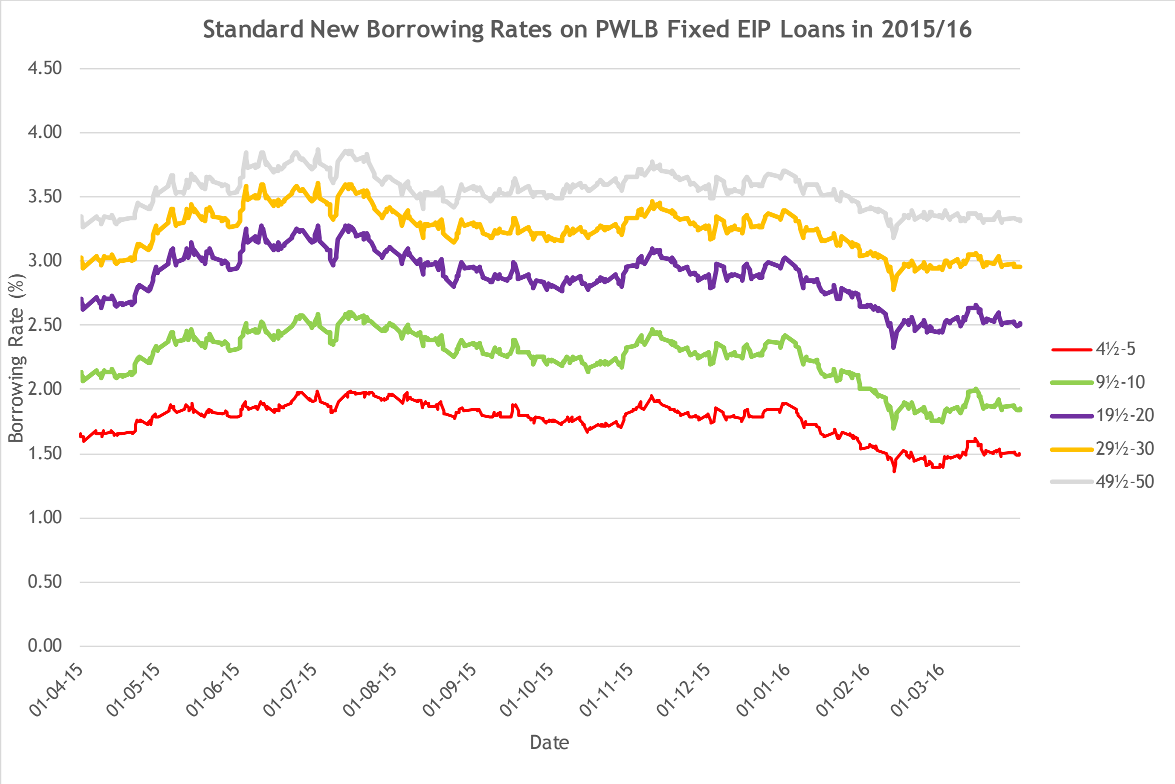

Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015	0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015	0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015	0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015	0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015	0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015	0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015	0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015	0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015	0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015	0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016	0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016	0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016	0.61	0.65	0.67	1.51	1.55	1.57
Low	0.61	0.61	0.66	1.51	1.51	1.56
Average	0.63	0.66	0.71	1.53	1.56	1.61
High	0.67	0.69	0.78	1.57	1.59	1.68

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Report to the Finance & Performance Management Cabinet Committee

Report reference: FPM-010-2016/17
Date of meeting: 15 September 2016

Epping Forest District Council

Portfolio: Finance

Subject: Quarterly Financial Monitoring

Officer contact for further information: Peter Maddock (01992 - 56 4602).

Democratic Services Officer: Rebecca Perrin (01992 – 56 4532)

Recommendations/Decisions Required:

That the Committee note the revenue and capital financial monitoring report for the first quarter of 2016/17;

Executive Summary

The report provides a comparison between the original estimate for the period ended 30 June 2016 and the actual expenditure or income as applicable.

Reasons for proposed decision

To note the first quarter financial monitoring report for 2016/17.

Other options for action

No other options available.

Report:

1. The Committee has within its terms of reference to consider financial monitoring reports on key areas of income and expenditure. This is the first quarterly report for 2016/17 and covers the period from 1 April 2016 to 30 June 2016. The reports are presented based on which directorate is responsible for delivering the services to which the budgets relate and the budgets themselves are the Original Estimate.

2. Salaries monitoring data is presented as well as it represents a large proportion of the authorities expenditure and is an area where historically large under spends have been seen.

Revenue Budgets (Annex 1 – 6)

3. Comments are provided on the monitoring schedules but a few points are highlighted here as they are of particular significance. The salaries schedule (Annex 1) shows an underspend of £202,000 or 3.6%. This is the same in percentage terms as this time last year.

4. Resources is showing the largest underspend of £78,000, this relates to Revenues and Housing Benefits. Neighbourhoods and Communities are both showing underspends of £53,000. The former relates to Forward Planning and Grounds Maintenance and the latter to the Housing Works Unit. Variances on Governance and the Office of the Chief

Executive are less significant.

5. The investment interest figure is lower than the budget as it is distorted by previous year adjustments. Having said that interest rates have fallen slightly and the expected significant capital spend over the next year will have an impact on returns. It is felt unlikely that returns will reach the budgeted level.

6. Development Control income at Month 3 is continuing the recent upward trend. Fees and charges were £51,000 higher than the budget to date and pre-application charges are £1,000 higher. At Month 4 total income was £59,000 above expectations.

7. Building Control income was £38,000 higher than the budgeted figure at the end of the first quarter. Also the ring-fenced account is showing an in-year surplus of around £38,000 as at Month 3. By the end of month 4 the surplus was only £2,000 short of the full year budgeted figure of £47,000.

8. Public Hire licence income and other licensing are above expectations. Within the Public Hire figures shown is £8,500 relating to future years.

9. Income from MOT's carried out by Fleet Operations is £11,000 below expectations. Income has been affected by the uncertainty around the relocation to Oakwood Hill. The move has now happened and a new Fleet Operations manager appointed. It is proposed to publicise the service in an effort to improve income.

10. Car parking income was £30,000 below the estimate as at month 3. There were some delays receiving income which has happened from time to time over the last few years. By late August income had reached and indeed exceeded expected levels.

11. Local Land Charge income is £3,000 below expectations. There have been fewer searches undertaken in recent months so the position will need to be monitored over the next few months to see whether this shortfall appears to be on going.

12. Expenditure and income relating to Bed and Breakfast placements is on the increase. Most are eligible for Housing Benefit and although some will be re-imbursed by the Department for Work and Pensions it is only around 50%, leaving a similar amount to be funded from the General Fund. Some growth has been allowed for within the 2016/17 budget but it looks unlikely that this will be sufficient.

13. The actual for Recycling income shows as a negative figure as at month 3. This is because the income expected for April Credits and the first quarter service enhancement payment from the County Council did not happen until month 4 and 5 respectively.

14. An overspend is showing on both Refuse Collection and Recycling. This is due in part to collections from additional properties and payments made to the contractor to compensate for the fall in income from the sale of recyclable materials.

15. The Housing Repairs Fund shows an underspend of £340,000. There are underspends showing on both Planned Maintenance and Voids work. There is also a variance on HRA Special Services which relate partly to grounds maintenance and sheltered units.

16. Income from Development Control, Building Control and probably Car Parking look likely to exceed the budget. Others are less certain. The intention to publicise the MOT service should hopefully improve the income situation there but it will probably take a few months for this to have much of an effect.

Business Rates

17. This is the fourth year of operation for the Business Rates Retention Scheme whereby a proportion of rates collected are retained by the Council.

18. There are two aspects to the monitoring, firstly changes in the rating list and secondly the collection of cash.

19. The resources available from Business Rates for funding purposes is set in the January preceding the financial year in question. Once these estimates are set the funding available for the year is fixed. Any variation arising from changes to the rating list or provision for appeals, whilst affecting funding do not do so until future years. For 2016/17 the funding retained by the authority after allowing for the Collection Fund deficit from 2015/16 is £3,435,000. This exceeded the government baseline of £3,050,000 by some £385,000. The actual position for 2016/17 will not be determined until May 2017.

20. 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 June the total collected was £10,206,011 and payments out were £8,636,746, meaning the Council was holding £1,569,265 of cash and so the Council's overall cash position was benefitting from the effective collection of non-domestic rates.

Capital Budgets (Annex 7 - 11)

21. Tables for capital expenditure monitoring purposes (annex 7 -11) are included for the three months to 30 June. There is a commentary on each item highlighting the scheme progress.

22. The full year budget for comparison purposes is the Original Budget updated for amounts brought forward from 2015/16 as part of the Capital Outturn report.

Major Capital Schemes (Annex 12)

23. There are three projects included on the Major Capital Schemes schedule these relate to the House Building packages 1 and 2 and The Epping Forest Shopping Park. Annex 12 gives more detail. The variance reported is a comparison between the anticipated outturn and approved budget.

Conclusion

24. With regard to revenue, income is generally up on expectations and expenditure down. The increased income levels are very much welcome, in particular Development and Building Control income. Expenditure being below budget is not surprising as expenditure is usually heaviest toward the end of the financial year.

25. The Committee is asked to note the position on both revenue and capital budgets as at Month 3.

Consultations Undertaken

This report is due to be presented to the Resources Select Committee in October, and an update will be provided to that Committee to cover any additional comments or information from this Committee.

Resource Implications

There is little evidence at this stage to suggest that the net budget set will not be met however the budget is being revised and as usual any variances reflected therein.

Legal and Governance Implications
Reporting on variances between budgets and actual spend is recognised as good practice and is a key element of the Council's Governance Framework.

Safer, Cleaner, Greener Implications
The Council's budgets contain spending in relation to this initiative.

Background Papers
Various budget variance working papers held in Accountancy.

Impact Assessments

<u>Risk Management</u>

These reports are a key part in managing the financial risks faced by the Council. In the current climate the level of risk is increasing. Prompt reporting and the subsequent preparation of action plans in Cabinet reports should help mitigate these risks.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
02/09/16 Director of Resources	The purpose of the report is to monitor income and expenditure. It does not propose any change to the use of resources and so has no equalities implications.

2016/17 DIRECTORATE FINANCIAL MONITORING

JUNE 2016 - SALARIES

	2016/17			2015/16		
DIRECTORATE	**EXPENDITURE TO 30/06/16 £000**	**BUDGET PROVISION (ORIGINAL) £000**	**VARIATION FROM BUDGET (ORIGINAL) %**	**EXPENDITURE TO 30/06/15 £000**	**BUDGET PROVISION (ORIGINAL) £000**	**VARIATION FROM BUDGET (ORIGINAL) %**
CHIEF EXECUTIVE	66	65	1.5	45	45	0.0
RESOURCES *	1,385	1,463	-5.3	1,384	1,446	-4.3
GOVERNANCE *	898	919	-2.3	806	837	-3.7
NEIGHBOURHOODS *	1,178	1,231	-4.3	1,098	1,162	-5.5
COMMUNITIES *	1,875	1,928	-2.7	1,799	1,833	-1.9
TOTAL	**5,402**	**5,606**	**-3.6**	**5,132**	**5,323**	**-3.6**

* Agency costs are included in the salaries expenditure.

Please note a vacancy allowance of 1.50% has been deducted in all directorate budget provisions.

The expenditure figures now include the 1% pay increase, including backpay.

2016/17 DIRECTORATE FINANCIAL MONITORING - COMMUNITIES

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	First Quarter 15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Museum	84	58	69	25	11	19	Business rates were paid in Month 3 in 2016/17 there was a slight delay last year meaning the charge was not applied until month 4. This amounts to £27,000. Since this time last year the museum have had additional storage costs owing to the impending closure of Langston Road. This amounts to £17,000 a quarter.
Bed & Breakfast Accommodation	147	25	64	21	39	156	The expected increase in caseload has been exceeded and is expected to continue. Rents shown below are also higher as a result.
Grants to Voluntary Groups	93	23	18	10	-5	-22	The spend on grants is lower initially as Grant release tends to be slow in first part of the year. It is often difficult to predict exact expenditure patterns from year to year as timing is dependant on the organisations providing the necessary information to enable the grants to be released.
Voluntary Sector Support	170	93	93	76	0	0	The variance between years is because the safer places contribution in 2015/16 was not paid until month 5.
Major income items:							
Bed & Breakfast Accommodation	150	25	64	37	39	156	Rents are up due to increased caseload.
	644	224	308	169			

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	First Quarter 15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major income items							
Development Control	928	211	263	237	52	25	Uncertainty in the economy is having a positive effect on planning application and pre-planning application submissions as householder extensions become the preferred option against moving house.
Building Control Fee Earning	425	110	149	125	38	35	Building Control fees are higher than the profiled budget and greater than the previous year actual which is a reflection of the change in the building industry. In addition, the Building Control service have continued to grow the Local Authority Building Control Partnership portfolio which has seen additional members joining in the first quarter of 2016/17 allowing them to increase its share of the market.
Local Land Charges	176	48	45	50	-3	-6	The first quarter of 2016/17 has seen reduced levels of fee income compared to the first quarter of the previous year and the budget to date. It is difficult to predict the number of searches the service will receive as it is determined by the buoyancy of the housing market.
	1,529	369	457	412			

2016/17 DIRECTORATE FINANCIAL MONITORING - NEIGHBOURHOODS

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	First Quarter 15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Refuse Collection	1,292	116	125	98	9	8	The variance is due to the additional cost of recently built properties needing the waste collection service.
Street Cleansing	1,226	129	72	115	-57	-44	The underspend relates to Street Arisings and an Opening Creditor on weedspraying.
Recycling	2,681	203	288	199	85	42	Profile expects one Biffa payment of the three for the quarter. The variance relates to charges for collections from new properties that came on line during 2015/16 and a rebate to the contractor as recycling income received by Biffa is lower than expected.
Highways General Fund	46	0	0	0	0	N/A	No variance
Off Street Parking	553	229	213	215	-16	-7	This budget includes surface maintenance which tends to be spent in the final quarter.
North Weald Centre	209	77	44	55	-33	-43	Runway Maintenance is up but a wide variety of other budget heads are under spent.
Land Drainage & Contaminated Land	129	11	0	17	-11	-100	This is a maintenance driven budget and has a volatile pattern of spend. No expenditure has been necessary so far this year.
	6,136	765	742	699			

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	First Quarter 15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items							
Forward Planning/Local Plan	643	126	25	2	-101	0	There was expected to be little expenditure in the first quarter but the actual is lower due to slippage in the programme.
Contract cost Monitoring							
Leisure Facilities:-							
Loughton Leisure Centre	-244	-41	-47	-16	-6	15	}
Epping Sports Centre	310	52	53	26	1	2	The in year variances are due to contractor invoices being one month in arrears at the end of June 2016, but the profiles allow for this. This } situation also occurred last financial year.
Waltham Abbey Pool	517	86	87	43	1	1	}
Ongar Sports Centre	294	49	50	25	1	2	}
	877	146	143	78			

2016/17

DIRECTORATE FINANCIAL MONITORING - NEIGHBOURHOODS (3)

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major income items:							
Refuse Collection	54	14	16	12	2	14	Bulk waste income is slightly above expectations, there has been an increase in collections made.
Recycling	1,509	-50	-136	4	-86	172	In 2015/16 the service enhancement payment from the County Council was received in Month 3 however in 2016/17 this arrived during August. Also recycling credits for April expected in quarter 1 of 2016/17 did not get processed until month 4.
Off Street Parking	1,344	249	219	218	-30	-12	Income from telephone payments is usually received monthly however there were again delays during the first quarter and none was received until month 4. The same thing happened last year.
North Weald Centre	789	297	296	256	-1	0	No major variance in year. In the prior year there was an on going rent review and outstanding arrears owing that were not resolved until the latter part of 2015/16.
Hackney Carriages	173	59	74	49	15	25	This income includes some 3 and 5 year licences paid in advance which distorts the actual figure. This amounts to around £9,000.
Licensing & Registrations	114	14	11	12	-3	-21	Income from liquor licences tend to be received during quarter 2 hence low income compared to the full year budget.
Fleet Operations MOTs	209	52	41	60	-11	-21	MOT income is down due to the uncertainties surrounding the relocation of the service to Oakwood Hill.
	4,192	635	521	611			

2016/17 DIRECTORATE FINANCIAL MONITORING - NEIGHBOURHOODS (4)

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major income items:							
Industrial Estates	1,132	519	537	515	18	3	Rents from the Industrial units are very slightly above expectations. There have been a few rent review increases agreed recently.
Business Premises - Shops	2,137	1,069	1,080	1,072	11	1	This income relates to non housing assets which include shops, doctors surgeries, a petrol station and public houses. Income is slightly above the profiled budget. The actual also includes rents billed in advance for the second quarter of around £540,000.
Land & Property	145	9	8	28	-1	-11	Commission is received from the David Lloyd Centre based on their turnover. Income relating to 2015/16 was accounted for last year, but received during the initial part of 2016/17. Income received from land and property in the first quarter of 2016/17 is on target with the profiled budget.
	3,415	1,597	1,626	1,615			

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	First Quarter 15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Building Maintenance	523	67	46	42	-21	-31	Building Maintenance works are difficult to forecast but generally works are undertaken in the latter part of the year which allows for preparation work to take place initially. The actual spend to date at quarter one for building maintenance is similar to the previous years comparative.
Information & Communication Technology	950	559	558	553	-1	0	The budget comprises of the total cost of the councils ICT expenditure including the Switchboard, Mobile Phones and all of the major systems in use. Expenditure is in line with the current budget spending profile as the majority of maintenance contracts for systems are paid at the beginning of the year with network charges continuing to be paid throughout the year.
Bank & Audit Charges	125	1	1	1	0	0	No significant expenditure occurs in either audit or bank charges until quarter 2.
	1,598	627	605	596			
Major income items:							
Investment Income	378	95	78	103	-17	-18	Investment interest is distorted slightly by year end debtor journals. Whilst Investment balances are around £10m higher than expected there are a number of significant capital projects that are expected to call on these funds so the original figure is unlikely to be met. Having said that the timings of capital spend are somewhat unpredictable and the actual income recceived will be heavily dependent on the progress of these schemes in general and the retail park in particular. Interest rates have also fallen.
	378	95	78	103			

2016/17 DIRECTORATE FINANCIAL MONITORING - HOUSING REVENUE ACCOUNT

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	15/16 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Management & General	274	59	40	42	-19	-32	Expenditure is lower in 2016/17 due to less spending on Policy & Management, and Rent Accounting.
Housing Repairs	6,351	1,462	1,122	1,092	-340	-23	The underspend mainly relates to the Planned Maintenance of the HRA, £172,000, and Voids £163,000. The budget is profiled evenly across the year, as it is unknown when responsive repairs will arise.
Special Services	1,147	309	204	178	-105	-34	The main areas showing an underspend are: Sheltered Units and Grounds Maintenance.
	7,772	1,830	1,366	1,312			
Major income items:							
Non-Dwelling Rents	886	219	218	211	-1	0	No major variances.
Gross Dwelling Rent	32,032	8,008	7,939	8,064	-69	-1	The variance between years is due to the rent decrease which was 1.0% from April 2016. Voids are 1.2%, the Budget assumed 0.7%, a £40,000 difference.
	32,918	8,227	8,157	8,275			

2016/17 DIRECTORATE CAPITAL MONITORING - COMMUNITIES

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Epping Forest District Museum Project	20	5	-35	-40	0	The build phase of the project was completed to the agreed timescale and handed back to EFDC in December 2015. The Museum was successfully opened to the public in March 2016. The contracted works are now in the 12 months defects period and a 2.5% retention is held by EFDC shown as a negative sum of £35,000 in the table. Final associated capital works are currently being agreed.
2nd Floor Bridgeman Hse W Abbey	309	0	0	0	0	There is currently no movement on the purchase of the Second Floor Bridgeman House, due to issues with the current occupants. However, the council has recently received confirmation that purchase & relocation is still expecting to go ahead.
CCTV Systems	207	52	6	-46	-88	A contractor has been appointed for the installation of CCTV systems in two Ongar car parks in Bansons way and The Pleasance. However other CCTV installations have been put on hold until lighting works on the other car parks are completed. There are also delays on the schemes at Longcroft Rise & Upshire shops pending a decision on whether or not to decomission the exisiting systems. The transfer of equipment from Langston Road to Oakwood Hill Depot & the installation of the North Weald Shopping Parade system are both complete with Town Mead extension also expected to be completed in quarter 2. The Limes Farm Automatic Number Plate Reader is expected to go out to tender in the autumn, whilst the re-deployable equipment and Epping High Street are set to be reviewed in September and early 2017 respectively.
Housing Estate Parking	371	0	0	0	0	The off-street parking schemes undertaken on council owned land, jointly funded between the HRA and General Fund, have been temporarily suspended at Torrington Drive due to the contractor having a health & safety incident.
Total	**907**	**57**	**-29**			

2016/17 DIRECTORATE CAPITAL MONITORING - NEIGHBOURHOODS

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	16/17 Variance Budget v Actual	16/17 Variance Budget v Actual	Comments
	£'000	£'000	£'000	£'000	%	
Epping Forest Shopping Park	18,276	4,569	56	-4,513	-99	Please see comments on the major schemes schedule.
St John's Road Epping Development	6,000	0	0	0	0	A report, dated 21 July, has been submitted and agreed with revised financial consideration for the purchase of the school site at St. Johns Road; these figures will be amended in the next capital review. Contract documentation has been agreed between EFDC and Frontier Estates and is now with Essex County Council for approval. The agreement is subject to final approval by the Secretary of State but once granted the contracts will be exchanged in September.
Oakwood Hill Depot	703	422	425	3	1	The building contract at Oakwood Hill was subject to numerous delays with practical completion of the site now programmed for 24th August. The MOT centre is already open and the offices are being utilised by Fleet Operations; The main workforce were relocated to the depot by the week ended 28th August.
Waste Management Equipment	28	7	0	-7	-100	This budget is in place to fund the acquisition of new bins to properties where bins had previously not been provided, in particular for blocks of flats.
Other Schemes	203	16	7	-8	-53	Foundation works are on-going with regard to the new chip and pin software being installed on the pay and display machines in the Council's car parks. Links between the machines and the banks are expected to start in late August, with the software to be installed by the end of quarter 3. In respect of flood alleviation works, the installation of a new sustainable drainage system and replacement works to existing soakaway systems at Bobbingworth Nature Reserve which will prevent flooding of the site & protect existing equipment are to be started in September. Finally, for grounds maintenance equipment, the procurement of a replacement mower will occur in quarter 2.
Total	**25,210**	**5,014**	**488**			

2016/17 DIRECTORATE CAPITAL MONITORING - RESOURCES

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Planned Maintenance Programme	836	209	23	-186	-89	Many of the schemes in the planned maintenance programme relating to the Civic Offices have been delayed for the 1st quarter, awaiting the outcome of the Price Waterhouse Cooper report. This being said, the new electrical bypass control panel, to allow power separation to both buildings and the computer suite in the Civic Offices is complete; the new heating control panel at the Civic Offices is currently being fabricated; and the programmes for the upgrade to the fire alarm system is underway. The fire escape upgrade at the Control Tower, North Weald Airfield is also complete.
Upgrade of Industrial Units	351	0	0	0	0	In October 2013 Stace were instructed to undertake an appraisal of the industrial units at Oakwood Hill Industrial Estate. They reviewed a typical lease to assess current repairing obligations and future liabilities within the terms of the lease. It was established that it is the landlord's obligation to ensure that all exterior additions are undertaken to a rentable standard and it is the tenant’s responsibility to maintain skylights. There have been long-standing issues with the ability to recover the costs of major works to the roof needed to achieve current building regulation standards. A specialist roof contractor has examined the condition of the roofs and provide a report which confirmed that *"apart from a few minor issues, including a few cracked sheets, [the roofs] are performing very well and could be expected to have another 5-10 years serviceable life, at least, without the need for major remedial action"*. Therefore, major repairs works to the industrial units are not expected to be carried out within the next few years.
ICT Projects & Other Equipment	403	101	92	-9	-9	The ICT planned schemes are progressing well, with the document management rollout, security enhancements & client licenses all completed in quarter 1. It is expected that this progress is going to continue in quarter 2, with the budget projected to be fully spent by the end of the year. The Human Resources (HR)/Payroll system implementation plan commenced in June and throughout July system workshops and training have taken place which were attended by appropriate staff from ICT, Finance and HR. Work has begun on gathering data for migration and information for system blue prints and also on the system build. Payroll is the first element to go live which will take place in December 2016. The Epping cash kiosks have been installed; however EDFC are currently disputing an invoice due to faulty software. The kiosks will be live in mid-September.
Total	**1,590**	**310**	**115**			

2016/17 DIRECTORATE CAPITAL MONITORING - HOUSING REVENUE ACCOUNT

ANNEX 10

	16/17 Full Year Budget	First Quarter 16/17 Budget	First Quarter 16/17 Actual	16/17 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
New Housing Builds - Phase 1 & 2	10,306	2,577	78	-2,499	-97	For Phases 1 & 2, please see comments on the major schemes schedule.
Housing Developments	1,889	472	-19	-491	0	With regard to phase 3, specifications, designs and contract documents have been prepared for all seven contracts that make thirty-four new homes. Tenders will be sought in August, with works starting on site around November 2016 & completion expected in April 2018. For phase 4, the Council has now achieved planning approval on seven sites, which will deliver twenty homes. However, four other sites have seen their planning applications refused with two sites being revised for resubmission & the other two sites being referred back to the house-build Cabinet Comitttee. All sites making up Phase 5, which centres on Buckhurst Hill and Ongar, have been submitted for planning consent. The negative actual figures represent creditors relating to the reversals of the retentions on Marden Close & Faversham Hall from 2015/16.
Barnfield S106 Development	904	226	606	380	168	The Council has entered into an agreement with Linden Homes, who are the property developer for the S106 site at Barnfield, Roydon. This is a joint approach whereby the Council is purchasing eight affordable rented homes using 1-4-1 receipts and B3 Living is purchasing three shared ownership properties. Completion is due around April 2018
Off Street Properties Purchases	2,055	514	293	-221	-43	The Cabinet Committee has been monitoring the 1-4-1 expenditure, which identified the need to purchase properties from the open market to avoid returning these receipts back to the Government. It was agreed that six properties would be purchased in the Waltham Abbey area on or near to existing Council estates. These are predominantly 2 or 3-bed houses. One purchase was made in quarter 1, with all six properties expected to complete by the end of August 2016.
North Weald Depot	3,200	0	5	5	0	The Council has secured planning permission for the provision of a new repairs and maintenance hub in North Weald. However, Cabinet has deferred the decision to proceed with the construction phase until both the contract has been signed on the St. Johns Road Development, and Members have had a chance to consider the ongoing accommodation review currently being undertaken by consultants Price Waterhouse Cooper.
Heating/Rewiring /Water Tanks	3,395	813	479	-334	-41	This category includes gas and electrical heating, mechanical ventilation and heat recovery (MVHR) installation, electrical rewiring, and communal and individual cold water storage tank replacements. Gas heating is currently showing the biggest variance of the category; however this is expected to be back on track in quarter 2 with the completion of two large schemes at Hyde Mead & Norway House. The communal water tanks scheme has faced major delays due to access problems at Hillyfields; these problems are likely to be unresolved in 2016/17, consequently the budget is expected to be heavily underspent. Electrical heating is currently ahead of schedule and it is likely there will be an overspend at the end of the year.
Windows/Doors/Roofing	2,670	654	386	-268	-41	This category includes budgets for front entrance door replacement, PVCu window replacement, tiled roofing and balcony resurfacing programmes. The front doors scheme has made slower than expected progress in quarter 1. However, with £80,000 of committed costs in quarter 2, the programme is expected to accelerate back on target. The double glazing scheme is currently showing the biggest variance in this category. A new tender will go out in quarter 3, with the leaseholders already being notified of the works planned for this year; an accelerated programme in quarter 3 & quarter 4 is expected. The flat roof schemes are more of a priority than the tiled roofs in quarter 1 & quarter 2 due to weather constraints in the winter months; this is reflected in the variances of both schemes.
Other Planned Maintenance	149	24	33	9	38	This category includes Norway House improvements, door entry system installations and energy efficiency works. The budget for door entry has been moved to quarter 3 as works cannot start until all leaseholders are notified. The energy efficiency scheme is currently struggling due to previous year’s works on this scheme meaning that work in 2016/17 has mostly been top-ups of cavity walls & loft insulation rather than full works. The budget had previously been reduced due to lack of grant funding. Norway House improvements are currently ahead of schedule with the budget expected to be spent by the end of the year.
Total c/f	24,568	5,280	1,861			

2016/17 DIRECTORATE CAPITAL MONITORING -
HOUSING REVENUE ACCOUNT

ANNEX 10

	16/17 Full Year Budget £'000	First Quarter 16/17 Budget £'000	First Quarter 16/17 Actual £'000	16/17 Variance Budget v Actual £'000	16/17 Variance Budget v Actual %	Comments
Total b/f	24,568	5,280	1,861			
Kitchen Replacements	2,190	538	259	-279	-52	Kitchen and bathroom replacements are mostly undertaken as part of planned programmes of work but some are carried out on an ad-hoc basis while properties are void. The planned programmes for the kitchens & bathroom replacements are currently behind schedule mainly due to restricted access or on-hold properties. Although plans are in place for both programmes to be accelerated, it is anticaptated that the current allocations will not be fully spent by the end of the year. Reallocations between budgets will be considered as part of the Capital Review.
Bathroom Replacements	1,938	481	252	-229	-48	
Structural & Other Works	460	90	45	-45	-50	Although underspent at present, the planned programme for miscellaneous structural works is expected to be fully utilised. With works on the conversion of Leonard Davis House unlikely to be started until quarter 4.
Council Estate Parking, Garages & Other Environmental Works	1,243	303	67	-236	-78	This category includes garages, fencing, off-street parking, estate environmental works, CCTV, external lighting schemes and gas pipework replacement programmes. The biggest variance in this category is the off-street parking scheme where works have been suspended in Torrington Drive due to the contractor having a health & safety incident. The estates environmental works are currently on schedule, external lighting scheme is expected to commence in quarter 3, and the gas pipework's replacement is progressing, although we are currently awaiting £83,000 of invoices which will move the expenditure back onto target. New CCTV systems at Hemnall House & Birchview have been completed, with Limes Farm Yellow & Green Block expected to go out to tender in quarter 3.
Disabled Adaptations	430	101	126	25	25	The welfare & heating scheme is currently on schedule & the budget is anticipated to be fully spent by the end of the year.
Other Repairs and Maintenance	256	60	41	-19	-32	As expected with the ad-hoc nature of both schemes, there is currently a small underspend showing on this category.
Capital Service Enhancements	432	56	10	-46	-82	This category includes the leaseholder front door replacement programme, Oakwood Hill Estate enhancement programme, mobility scooter stores, online rents system & repairs maintenance system. The Oakwood Hill enhancement programme is currently on hold due to Essex County Council's involvement in the scheme. Similarly the mobility scooter stores scheme is also on hold until quarter 3 when a decision will be made on the viability of the scheme. Letters have been sent to leaseholders regarding the replacement of front doors; there are less than expected leaseholders who are willing to take up this programme. At present, there are committed work orders currently on- going, which will complete all the high-risk wooden front doors, after which the focus will move to the installation of plastic front doors.
Housing DLO Vehicles	108	0	0	0	0	It is expected that the prices for the procurement of eight DLO vans will be agreed in late August with a delivery date of mid to late December. The rest of the budget will be spent on fitting extras onto these vans to improve vision during winter months.
Work On Hra Leasehold Prop (Cr)	-300	0	0	N/A	N/A	This credit budget allows for work undertaken within the above categories on sold council flats. Once identified, an adjustment will be made at the end of the year.
Total	**31,325**	**6,909**	**2,661**			

2016/17 DIRECTORATE CAPITAL MONITORING - REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE (REFCuS)) AND CAPITAL LOANS

REFCuS	16/17 Full Year Budget £'000	First Quarter 16/17 Budget £'000	First Quarter 16/17 Actual £'000	16/17 Variance Budget v Actual £'000	16/17 Variance Budget v Actual %	Comments
Disabled Facilities Grants	500	125	143	18	14	The Council has a legal duty to provide DFGs to all residents who meet the eligibility criteria. The number of occupational therapists' referrals that initiate DFGs is inconsistent and although it appeared to have flattened off in 2014/15, it rose again in 2015/16. As a result of this it is anticipated that DFG expenditure in 2016/17 will be £630k. As a result of the increased demand in 2015/16 Members agreed to increase the allocation in the capital programme by £120k, from £380k to £500k, for each of the four years from 2015/16 until 2018/19. This agreement was given on the expectation that the government would support this expenditure with a contribution of £363k from the Better Care Fund (BCF), being the amount contributed in 2015/16. The BCF contribution towards DFGs in EFDC in 2016/17 is in fact £665k which means that the additional £120k Capital Growth Bid will not be needed to be funded by the Council in 2016/17.
Parking Schemes	273	68	3	-65	-96	In early August a meeting between the Members of the group and NEPP was arranged to discuss the parking review schemes. Drawings are now being developed for the agreed schemes. No start time has been currently agreed, however it is expected that the start time will be in quarter 3.
HRA Leaseholders	150	0	0	N/A	N/A	These costs relate to capital works on sold council flats, currently shown in the HRA capital programme. They will be identified once the works are complete and reported at the end fo the financial year.
Total	**923**	**193**	**146**			

CAPITAL LOANS	16/17 Full Year Budget £'000	First Quarter 16/17 Budget £'000	First Quarter 16/17 Actual £'000	16/17 Variance Budget v Actual £'000	16/17 Variance Budget v Actual %	Comments
Private Sector Housing Loans	271	68	138	70	104	This scheme offers discretionary loans to provide financial assistance for improving private sector housing stock. It is anticipated that some money paid out in previous years will be re-couped this year as applicants move on and properties are sold. At this point in the year the budget allocated is expected to be spent.
Total	**271**	**68**	**138**			

MAJOR CAPITAL SCHEMES

HOUSE BUILDING PHASE 1

Original Start on Site Date	Original Finish Date	Actual Start on Site Date	Proposed Finish Date	Original Pre-Tender Forecast	Updates	Approved Budget	Actual Expenditure To Date	Anticipated Outturn	Variance Anticipated Outturn to Approved Budget	Approved Budget Unspent To Date
				£'000 (A)	£'000 (B)	£'000 (C)	£'000 (D)	£'000 (E)	% ((E-C)/Cx100)	£'000 (C-D)
Apr-14	Jun-15	Oct-14	Jul-17	3,948	-429	3,519	2,587	TBA	TBA	932

Work started on phase 1 of the Council's Housebuilding Programme in October 2014 to construct 23 new homes for rent. This included 14 houses and 9 flats on four different sites in Waltham Abbey, after the fifth site was rejected. However, the works did not progress in line with the original contract period, which had a completion date of 13 November 2015. A certificate of non-completion was served on the contractor Broadway Construction Ltd, when liquidated and ascertained damages (LAD's) were deducted from each payment at a rate of around £10,200 per week. These damages were set to reflect the loss of rent for the properties and the cost of employing consultants to continue to manage the contract.

On 1 June 2016, with approximately 60% of the value of works completed, the Council terminated the contract with Broadway Construction Ltd as they were not regularly and diligently progressing with the works. As a result, the Council has secured the site and completed an inventory of works still to be completed, which is now being used to negotiate with an alternative contractor to complete the works. It is anticipated works will recommence on site in September 2016 with the two Roundhills sites and most of the Red Cross site completed by February 2017, the Harveyfields site ready by April 2017 and the two remaining duplex units on the Red Cross site completing in July 2017.

HOUSE BUILDING PHASE 2

Original Start on Site Date	Original Finish Date	Actual Start on Site Date	Proposed Finish Date	Original Pre-Tender Forecast	Updates	Approved Budget	Actual Expenditure To Date	Anticipated Outturn	Variance Anticipated Outturn to Approved Budget	Approved Budget Unspent To Date
				£'000 (A)	£'000 (B)	£'000 (C)	£'000 (D)	£'000 (E)	% ((E-C)/Cx100)	£'000 (C-D)
Feb-16	Mar-18	Mar-16	Apr-18	10,833	0	10,833	696	10,833	0%	10,137

Phase 2 of the Housebuilding Programme is now progressing, having achieved planning permission in September 2015 for 51 new affordable homes at Burton Road Loughton. Tenders were issued to six contractors from the East Thames' approved list and five bids were submitted, with one contactor withdrawing. The five tenders received were opened by the housing portfolio holder in November 2015 in accordance with contract standing orders. Interviews were held in December 2015 with each of the two lowest tenderers to explore any qualifications as part of the evaluation process. The tenders were analysed by Pellings LLP, the employers agent acting on behalf of the Council's development agent East Thames, who recommended that Mullalley & Co Ltd be awarded the contract.

Cabinet subsequently approved the award of the contract to Mullalley & Co Ltd in the adjusted tender sum of £9,847,179 based on a design and build contract with a contract period of 105 weeks. This compared to a pre-tender estimate of £8,125,000, which was based on rates in the second quarter of 2015, without any inflationary uplift. The lowest tender as originally received was around 16% above the estimated cost and it was the view of Pellings LLP that this was due to a number of inflationary pressures affecting the construction sector.

It was originally anticipated that Mullalley & Co Ltd would take possession of the site in February 2016 with work commencing on site around June 2016 once the planning conditions were discharged and the detailed designs prepared and approved. Although timings have slipped a little, Mullalley & Co Ltd took possession of the Burton Road site in March 2016 and are actively progressing with the detailed design before they commence the build stage in August 2016.

MAJOR CAPITAL SCHEMES

EPPING FOREST SHOPPING PARK										
Original Start on Site Date	Original Finish Date	Actual Start on Site Date	Latest Proposed Finish Date	Original Pre-Tender Forecast	Updates	Approved Budget	Actual Expenditure To Date	Anticipated Outturn	Variance Anticipated Outturn to Approved Budget	Approved Budget Unspent To Date
				£'000 (A)	£'000 (B)	£'000 (C)	£'000 (D)	£'000 (E)	% ((E-C)/Cx100)	£'000 (C-D)
Mar-16	Oct-16	Sep-16	Jun-17	31,161	0	31,161	12,941	31,161	0%	18,220

The project budget includes the initial budgets approved for all preliminary costs incurred since 2010/11 plus the supplementary capital estimate of £30,636,000 approved by Cabinet in June 2015. It covers the purchase of Polofind's interest in July 2015, the development of the site at Langston Road by the Council as a sole owner. The costs allocated for S278 Highways Works as well as consultancy & other professional fees.

Delays have occurred obtaining a contractor for the main retail park due to the initial open OJEU process failing to attract any bids. Subsequently a restricted process was completed with the winning tender being from McLaughlin and Harvey in the sum of £10,300,000. A letter of intent has been issued with start on site confirmed as 12th September 2016. The contract is due to be signed in late August with a contract period of 37 weeks plus the Christmas break.

The Section 278 works were tendered late in 2015 and awarded to Walkers Construction. Due to changes in personnel at ECC, a number of substantial changes have been added to the scheme increasing costs and the contract programme. With numerous technical issues originally outstanding and ECC having the final say on proceedings, progress has been extremely slow and it is now anticipated that final technical approval should be achieved no later than 5th September 2016. Walkers have already established a site presence in Chigwell Lane; their new revised contract of 40 weeks has risen to approximately £3,000,000.

The marketing of the units has been progressing over the last year with the anchor tenants already having reached agreement. These being Next, Aldi, Smyths Toys, Mothercare, TJX (UK) Ltd and Hobbycraft, who account for in excess of 50% of the total sales area of the Retail Park. Once construction begins marketing will focus on the remaining generally smaller units which are anticipated to achieve higher rents than originally forecast. The current project plan anticipates a shell completion with ready for tenant fit in May/June 2017, and the opening of the park is expected to take place in September 2017.

Report to the Finance and Performance Management Cabinet Committee

Report reference: FPM-011-2016/17
Date of meeting: 15 September 2016

Epping Forest District Council

Portfolio: Finance

Subject: Risk Management – Corporate Risk Register

Officer contact for further information: **Edward Higgins – (01992 – 564606)**

Democratic Services Officer: **Rebecca Perrin - (01992 – 564532)**

Recommendations/Decisions Required:

1. **To agree the updated Existing control, Effectiveness of control and Key Date within the Action Plan for Risk 1;**

2. **To agree the updating of the Effectiveness of controls/actions and Required further management action for Risk 2;**

3. **To agree the updating of the Existing Control and the Required further management action for Risk 5;**

4. **To agree the additional Required further management action for Risk 6;**

5. **To agree the amendment of the Risk Score for Risk 7;**

6. **To agree the amendment of the Risk Score for Risk 10;**

7. **To consider whether there are any new risks that are not on the current Corporate Risk Register; and**

8. **To agree that the amended Corporate Risk Register be recommended to Cabinet for approval.**

Executive Summary:

The Corporate Risk Register has been considered by both the Risk Management Group on 25 August 2016 and Management Board on 31 September 2016. These reviews identified amendments to the Corporate Risk Register.

Reasons for Proposed Decisions:

It is essential that the Corporate Risk Register is regularly reviewed and kept up to date.

Other Options for Action:

Members may suggest new risks for inclusion or changes to the scoring of existing risks.

Report:

1. The Corporate Risk Register was reviewed by the Risk Management Group on 25 August and Management Board on 31 August. Amendments have been identified and incorporated into the register (Appendix 1).

2. Risk 1 Local Plan – The existing control and effectiveness have been updated to advise the revision of the Local Development Scheme which was adopted by Cabinet on 21 July 2016. A key date of 18 October has been added for Council approval of the draft plan.

3. Risk 2 Strategic Sites – The Effectiveness of controls/actions have been amended to advise the updated position for the key sites. Work continues to progress well at the Winston Churchill site. The purchase price for St. Johns has been agreed with Essex County Council, however approval from the Secretary of State is awaited. The contract for the Langston Road site has been awarded, with work expected to commence in early September.

4. Pyrles Lane Nursery has been added to the list of strategic sites. This follows DDMC granting consent for the redevelopment of the site. The associated required action advises the need to produce a marketing strategy for the site.

5. Risk 5 Economic Development – The existing control has been amended to reflect the Economic Development and Employment Policies being drafted for inclusion in the Local Plan. Amendment and update has been added as a required further management action, following consultation on the Local Plan.

6. Risk 6 Data/Information – An additional required further management action has been added to advise the need to update the FOI publication scheme and guide to information.

7. Risk 7 Business Continuity – Following the updating of the Corporate Business Continuity Plan and a re-evaluation, it is felt that the likelihood of disruption has reduced. To reflect this the risk score has been amended from C2 (Medium Likelihood/Moderate Impact) to D2 (Low/Very Low Likelihood/Moderate Impact).

8. Risk 10 Housing Capital Finance – There is little likelihood of now having to hand back one-for-one receipts due to the effectiveness of management action, including the purchase of street properties. The risk score has therefore been reduced from B2 (High Likelihood/Moderate Impact) to C2 (Medium Likelihood/Moderate Impact).

9. Members are now asked to consider the attached updated Corporate Risk Register and whether the risks listed are scored appropriately and whether there are any additional risks that should be included.

Resource Implications:
No additional resource requirements.

Legal and Governance Implications:
The Corporate Risk Register is an important part of the Council's overall governance arrangements and that is why this Committee considers it on a regular basis.

Safer, Cleaner, Greener Implications:
None.

Consultation Undertaken:
The Risk Management Group and Management Board have been involved in the process.

Background Papers:
None.
Impact Assessments:

<u>Risk Management</u>
If the Corporate Risk Register was not regularly reviewed and updated a risk that threatened the achievement of corporate objectives might either not be managed or be managed inappropriately.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	**Summary of equality analysis**
01/09/16 Director of Resources	The purpose of the report is to monitor corporate risks. It does not propose any change to the use of resources and so has no equalities implications.

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Appendix 1

Epping Forest District Council

Corporate Risk Register

Date: 15 September 2016

Contents

1. Introduction

A strategic risk management 'refresh' exercise was conducted on 15th May 2013 with assistance from Zurich Risk Engineering. This exercise was an opportunity for the Management Board to refresh (or update) through identification, analysis and prioritisation those risks that may affect the ability of the Council to achieve its strategic objectives and Corporate Plan. In doing so, the organisation is recognising the need to sustain risk management at the highest level.

The refresh exercise involved a workshop with Management Board to identify new business risk areas and to update and re-profile important risks from the existing corporate risk register.

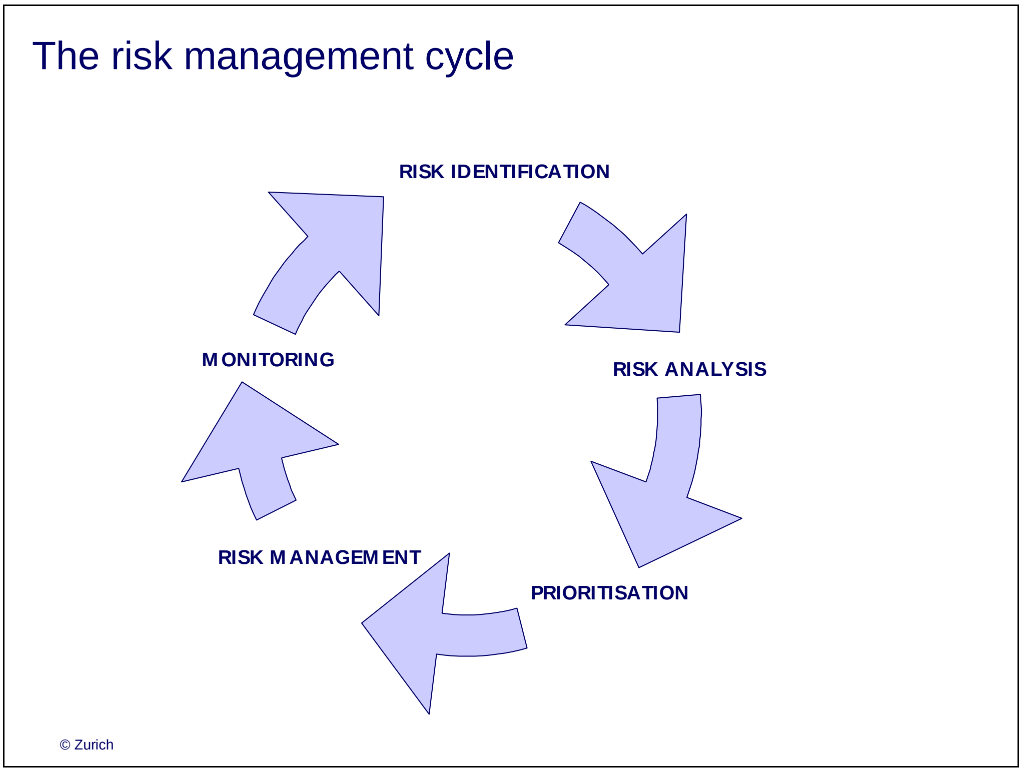
In total 8 strategic risks were profiled at the workshop and during the workshop, each risk was discussed to ensure common agreement and understanding of its description and then prioritised on a matrix. The risk matrix measured each risk for its likelihood and its impact in terms of its potential for affecting the ability of the organisation to achieve its objectives.

For the risks that were assessed with higher likelihood and impact, the group validated the risk scenarios and determined actions to manage them, including assessing the adequacy of existing actions and identifying the need for further actions in order to move the risk down the matrix.

Management Board agreed a timescale for re-visiting these risks in order to assess if they are still relevant and to identify new scenarios. Risks in the red zone will be monitored on a monthly basis and those in the amber zone on a quarterly basis.

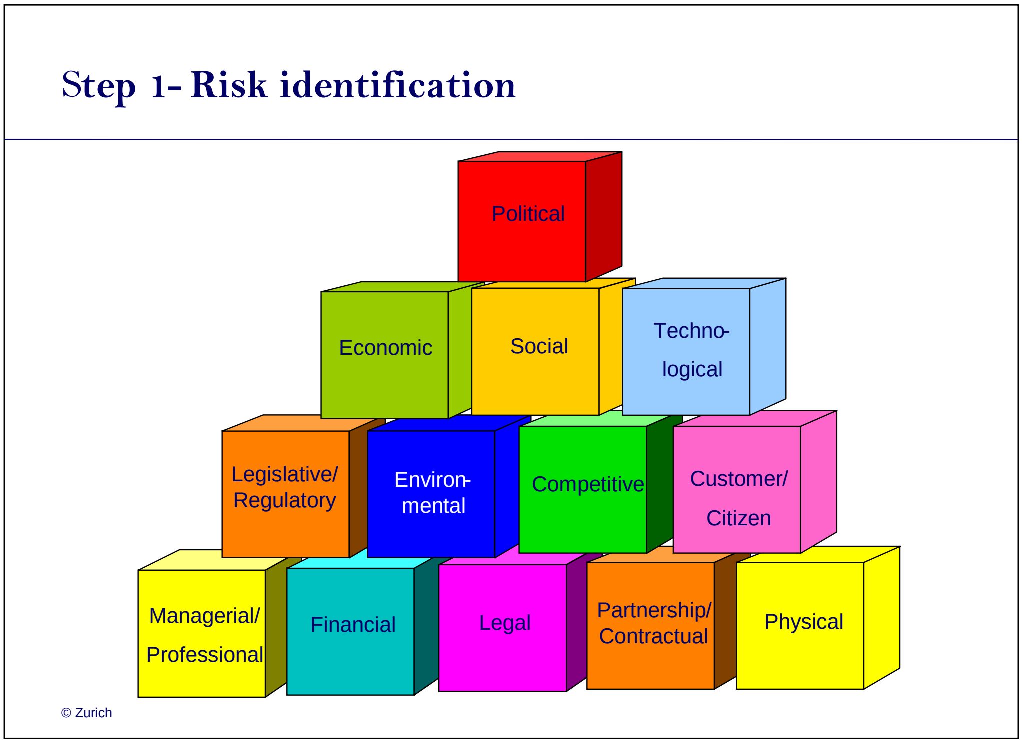
The following report outlines the process utilised by Zurich Risk Engineering and the results achieved.

2. The Process



Risk identification

The first of five stages of the risk management cycle requires risk identification. This formed the initial part of the workshop. In doing so the following 13 categories of risk were considered.



Risk analysis
During the workshop, the identified risks were discussed and framed into a risk scenario format, containing risk cause and consequence elements, with a 'trigger' also identified, This format ensured that the full nature of the risk was considered and also helped with the prioritisation of the risks.

Risk prioritisation
The discussion resulted in 8 risk scenarios being agreed (Appendix 2) and these were then assessed for impact and likelihood and plotted onto a matrix (Appendix 1). The likelihood of the risks was measured as being 'very high', 'high', 'medium', or 'low/very low'. The impact, compared against the key objectives and Corporate Plan was measured as being 'major', 'moderate', 'minor' or 'insignificant'.

Once all risks had been plotted the matrix was overlaid with red, amber and green filers, with those risks in the red area requiring further particular scrutiny in the short-term, followed by those in the amber area.

Risk management and monitoring

The next stage is to monitor the revised management action plans. These plans frame the risk management actions that are required. They map out the target for each risk i.e. to reduce the likelihood, impact or both. They also include targets and critical success factors to allow the risk management action to be monitored.

A risk owner has been identified for each risk. It is vital that each risk should be owned by a member of Management Board to ensure that there is high level support, understanding and monitoring of the work that is required as part of the plans. Risks should also be reviewed as part of the business planning process, in order to assess if they are still relevant and to identify new issues.

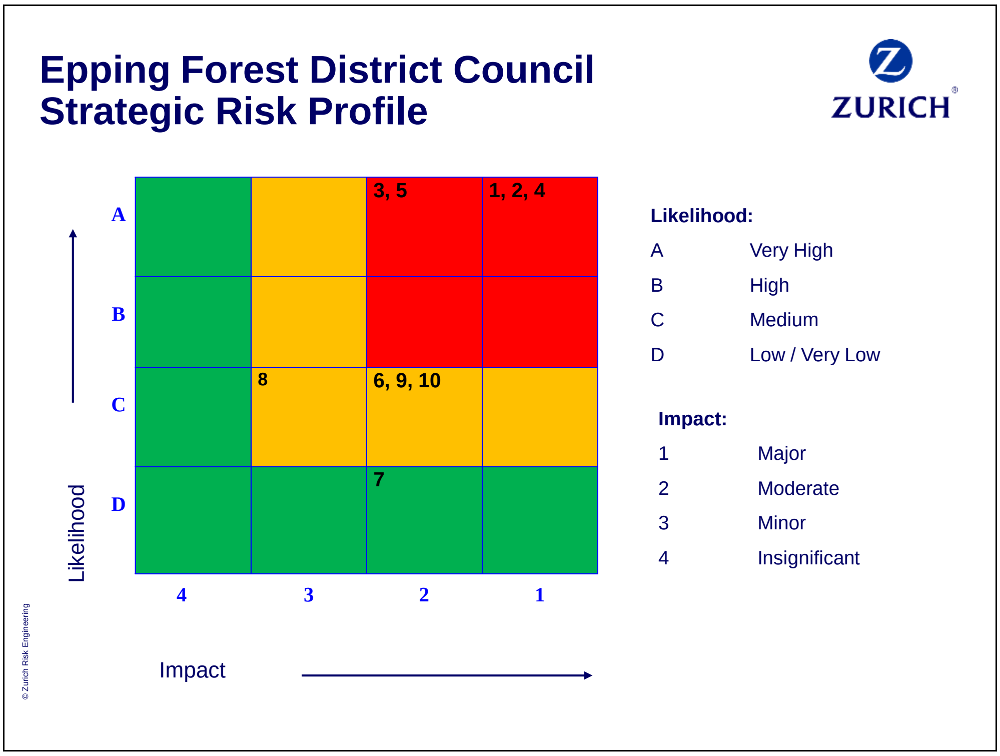
The monitoring of these action plans takes place at Corporate Governance Group, Management Board and the Risk Management Group. The action plans are also reported to Members quarterly.

As part of the regular review and reporting an additional risk on Safeguarding was added to the register in January 2014. The most recent addition was a risk covering various aspects of Housing Capital Finance and this was added in June 2015.

Appendix 1 – Risk Profile

Risk profile

During the workshop, 8 risks were identified and framed into scenarios. The results are shown on the following risk profile.



Appendix 2 details all of the above risks.

It is important that an action plan element is written for each of the risks, with particular focus on those with the highest priority, as it is this which will allow them to be monitored and successfully managed down.

An opportunity was also taken as part of this refresh to 'spring clean' the risk numbers, and they were numbered in priority order as follows:

Risk number	Short name
1	Local plan
2	Strategic sites
3	Welfare reform
4	Finance – income
5	Economic development
6	Data/ information
7	Business continuity
8	Partnerships
9	Safeguarding
10	Housing Capital

Appendix 2 – Corporate Risk Register and Action Plans

Risk No 1 Local Plan A1

Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
On-going changes to Planning system increase importance of having up to date Local Plan, in particular, Central Government's announcement that Local Authorities must complete by 2017 or face sanctions	Failure to make timely decisions and adhere to Local Development Scheme Project Plan.	Reduced ability to manage development in line with local priorities and provide strategic direction. Possible Government intervention through designation as a failing authority, loss of control over the local plan process and loss of new homes bonus.	Derek Macnab
Proposed changes to the New Homes Bonus regime where planning approvals granted on appeal will not qualify for bonus.	Failure to make timely decisions and adhere to Local Development Scheme Project Plan.	Loss of New Homes Bonus revenue.	
Changes in government planning policy require new Local Plan to take approaches significantly different from predecessors e.g. Duty to Co-operate, release Green Belt.	Failure of Council to approve a draft plan in line with National Planning Policy Framework.	Plan not "sound", leading to further delay, wasted resources, and vulnerability to planning appeal decisions.	
Difficulties in implementing "Duty to Co-operate" may make it difficult or impossible to achieve "sound" Local Plan in timely fashion	Inability to agree, particularly on amount and distribution of objectively assessed development needs.	As above	
Particular vulnerability to delay in approvals from Highways England on strategic modelling delay ability to understand impacts of delivering to objectively assessed need levels.	Failure to make timely decisions on Preferred Approach plan due to lack of required information	As above	
Protracted process of achieving local highway modelling	As above	As above	
Failure to make timely progress increases likelihood of "planning by appeal"	Failure to adhere to Local Development Scheme leads to developers making significant planning applications in advance of new Plan.	Significant diversion of professional resources to appeals. Risk of costs awards against Council.	
Planning policy recruitment and retention issues. Not considering alternative options of delivering work i.e outsourcing.	S106/CIL arrangements. Planning policy recruitment and retention issues. Not considering alternative options of delivering work i.e outsourcing	Delays in achieving timetable, loss of New Home Bonus revenue.	

Risk No 1 Local Plan – Action Plan

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Project management approach in place including regular updates, resource planning.	Project plan needs to incorporate more time for political engagement at key decision points.	Agree mechanisms and timing with lead members, incorporate in revised project plan	Derek Macnab	Future adherence to project plan.	MB review 6 weekly	None – process ongoing.
Local Development Scheme revised July 2016.	Local Development Scheme adopted by Cabinet 21 July 2016.	Review progress against key milestones.	Derek Macnab	Local Development Scheme remains robust	As necessary	18 October Council Approval of draft plan.
Workshops for EFDC and Town/Parish councillors on key issues to enhance awareness and understanding of new government requirements.	Workshops popular and helpful.	Supplement workshops with other forms of briefing to EFDC members as agreed with leading members.	Derek Macnab	Timely decision making in line with project plan.	As necessary	
Engagement with other key stakeholders e.g. ad hoc meetings with Town/Parish councils, Resident Associations and website.	Utilising existing mechanisms including Local Council Liaison Committee and Forester. Intensive engagement takes place in lead up to formal consultations. Ongoing discussions being had around Neighbourhood Plans.	Consider hiring a PR firm to assist in delivering the next statutory consultation.	Derek Macnab	Stakeholders feel well informed about process and decisions. Informed responses to public consultation.	As necessary	

Risk No 1 Local Plan – Action Plan

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Systematic approach to Duty to Co-operate, engaging public bodies and developing Memorandum of Understanding with key councils in the Strategic Market Housing Area.	Difficulties and delay in engaging councils in serious discussion re Memorandum of Understanding, however progress now being made. Meetings held with most other key bodies with positive outcomes, issues identified. Constant review of Planning Inspectorate local plan decisions re Duty to Co-operate.	Important that key decisions do not precede Duty to Co-operate i.e. “fait accompli”- Group is exploring additional items to be included on discussion agenda. Engage further key bodies e.g. Lee Valley Regional Park. Discuss informally with Planning Inspectorate as necessary.	Derek Macnab	Submitted plan passes legal test of Duty to Co-operate.	MB review six weekly	Officer Meetings – monthly now underway. Governance arrangements agreed. “Duty to Co-operate” Member meetings now ongoing.
Lobbying of DCLG and local MP’s re Highways England delays together with SHMA partners. Pursuit of MoU with Natural England. Consistent close working with Essex County Council through relevant structures, and individual officers	Effect as yet unknown	Joint letter from Leaders to local MPs	Derek Macnab	As above	As above	
Consultants in place to support project management, resource planning, Sustainability Assessment, transport modelling, master planning.	Staff cannot be prevented from leaving. Exit interviews should reveal any specific patterns. Market is picking up, making recruitment more difficult. EFDC is not offering the most competitive salaries compared to other Essex and London authorities.	Ongoing review of strategy by senior planners and Management Board.	Derek Macnab	No delays to timetable due to staffing gaps or lack of critical skills		

Risk No 2 Strategic Sites A1

Vulnerability	Trigger	Consequence	Risk Owner
The Council has a number of Strategic sites which it needs to make the right decisions about and then deliver on those decisions. One key individual is driving forward the projects.	Not maximising the opportunity of the strategic sites either through decisions or delivery. Loss of key individual	• Financial viability of Council harmed • Lack of economic development and job creation • External criticism • Project delayed or mismanaged	Derek Macnab

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Work on strategic sites is co-ordinated through a dedicated Cabinet Committee.	Work is progressing on developing a number of sites: 1. Winston Churchill, good progress being made on site; 2. St Johns purchase price agreed with Essex County Council but still waiting for approval from Secretary of State; 3. Langston Road, contract awarded and work due to commence early September; 4. Oakwood Hill, completed and in use; 5.Pyrles Lane Nursery, DDMC have granted consent for the redevelopment of the site.	Reports to Cabinet Committee and Cabinet to obtain decisions on development options. Identification of alternative Housing depot and re-location. Produce marketing strategy.	Derek Macnab	Development of strategic sites completed in accordance with Cabinet decisions.	Monthly	None

Risk No 3 Welfare Reform A2

Vulnerability	Trigger	Consequence	Risk Owner
The government has pledged to make substantial savings from the overall welfare bill. This will require a major reform of the welfare system which is likely to have serious impacts on the Council and the community. This includes Universal Credit, changes to Council Tax and other benefits and direct payments to tenants.	Welfare reform changes have a detrimental effect on the Council and community	• Tenants no longer able to afford current/new tenancies. • Increase in evictions and homelessness • Increased costs of temporary accommodation • Unable to secure similar level of income due to payment defaults • Increase in rent arrears • Public dissatisfaction • Criticism of the Council for not mitigating the effects for residents.	Alan Hall

Existing Controls /actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Joint Benefits and Housing working group established. Mitigation action plan developed.	Two thirds of the actions have been implemented and the remaining actions are in abeyance pending Government announcements on Universal Credit.	Working Group to continue and amend mitigation action plan as necessary.	Alan Hall	A smooth implementation of welfare reforms. Minimise number and cost of redundancies.	Monthly	Start date for full version of universal credit still unclear.

Risk No 4 Finance Income A1

Vulnerability	Trigger	Consequence	Risk Owner
The Government will be consulting in 2016 on significant changes in responsibilities and financing. District Councils are likely to suffer large reductions in grant income and New Homes Bonus. A large number of rating appeals have been received and the outcome of these is uncertain. Welfare reform may require substantial change to the calculation and administration of benefits with a likely reduction in funding received. The medium term financial strategy requires substantial net CSB reductions over three years.	Unable to secure required level of income due to reduced demand for services, changes in legislation or adverse change in funding mechanisms.	• Council unable to meet budget requirements • Staffing and service level reductions • Increase Council Tax • Increase in charges • Greater use of reserves if required net savings not achieved • Higher level of saving in subsequent years.	Bob Palmer

Existing Controls /actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Monitoring of key income streams and NDR tax base. Savings opportunities pursued through service reviews and corporate restructure.	Effective to date as budgets have been achieved that meet the financial targets set by Members.	Update Medium Term Financial Strategy as announcements are made on changes to central funding and welfare. Continue to pursue opportunities to reduce net spending.	Bob Palmer	Savings targets achieved with net expenditure reductions over the medium term as part of a structured plan.	Monthly	Issue of revised scheme for New Homes Bonus likely late summer.

Risk No 5 Economic Development A2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
Economic development and employment is very important, particularly in the current economic climate. The Council needs to be able to provide opportunities for economic development and employment (especially youth employment) in the District.	Council performs relatively poorly compared to other authorities.	• Unable to secure sufficient opportunities • Local area and people lose out • Insufficient inward investment • Impact on economic vitality of area • Loss of revenue	Derek Macnab

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Economic Development and Employment Policies drafted for inclusion in the Local Plan.	Too early to determine effectiveness.	Amend and update policies following consultation on Local Plan.	Derek Macnab	Growth in NDR tax base and employment opportunities. Council to be viewed as punching above its weight.	Monthly	

Risk No 6 Data / Information C2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Authority handles a large amount of personal and business data. Either through hacking or carelessness, security of the data could be compromised.	Data held by the Council ends up in inappropriate hands.	• Breach of corporate governance • Increased costs and legal implications • Reputation damaged	Colleen O'Boyle

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Updated Data Protection policy agreed by Corporate Governance Group and rolling out through meta-compliance. Data Protection formed part of Member induction from May 2014, with requirement to confirm acceptance of the Council's DP policy. Consolidation of Data Protection and Freedom of Information work in one area. Security Officer is continually monitoring situation and potential risks. Most systems have in built controls to prevent unauthorised access. Controls in systems have been strengthened in response to specific occurrences.	Generally effective to date, with no lapses so far in 2016/17.	Update F.O.I. publication scheme and guide to information. New system for handling F.O.I. requests purchased and being implemented. Review after six months for extension to Data Protection. Data sharing and fair processing notices to be reviewed and standardised. Maintain GCSx compliance and system controls. A working group is reviewing data held by Directorates to eliminate duplication and any inadvertent Data Protection issues.	Colleen O'Boyle	Continued security of personal data held by the Council in accordance with the Data Protections Act 1998. No criticism from the ICO over how requests are handled. No data loss or system downtime due to unauthorised access of EFDC systems or data.	Quarterly	None

Risk No 7 Business Continuity D2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Council is required to develop and implement robust Business Continuity Plans in line with the requirements of the Civil Contingencies Act. Following the consolidation into four directorates plans need to be updated and changes in responsibilities confirmed.	Unable to respond effectively to a business continuity incident (e.g. IT virus/flu pandemic)	• Services disrupted / Loss of service • Possible loss of income • Staff absence • Hardship for some of the community • Council criticised for not responding effectively	Derek Macnab

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Most services already have business continuity plans in place and a separate flu pandemic plan has been developed. The Corporate Plan has been updated and adopted.	The effectiveness of controls is assessed periodically through test and exercises	Guidance to be issued to services on updating plans. Arrange periodic tests and exercises.	Derek Macnab	Having plans in place which are proved fit for purpose either by events or external scrutiny.	Quarterly	None

Risk No 8 Partnerships C3

Vulnerability	Trigger	Consequence	Risk Owner
The Council is involved in a plethora of multi agency partnerships e.g. LSP - LEP, and these have a variety of governance arrangements. Localism act may cause transfer of Council services to providers with governance issues.	Key partnership fails or services provided via arrangements lacking adequate governance.	• Relationships with other bodies deteriorate • Claw back of grants • Unforeseen accountabilities and liabilities for the Council • Censure by audit/inspection • Adverse impact on performance	Glen Chipp

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Active participation in key partnerships by appropriate officers/Members. Structured reporting back to designated Select Committee. Members can request representatives on outside bodies to report to Full Council.	No significant issues to date. However, some concern exists about the working of the North Essex Parking Partnership. Internal Audit conducted an audit of partnerships and gave a rating of substantial assurance.	Continue existing monitoring procedures for current partnerships and construct appropriate arrangements for any new partnerships. Service areas need to ensure their own risk registers cover any significant partnerships they are involved with.	Glen Chipp	No significant impacts on service delivery or Council reputation from any partnership failures.	Quarterly	None

Risk No 9 Safeguarding C2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Council needs to demonstrate its ability to meet its duties under Sections 11 and 47 of the Children Act 2004. In addition, with the introduction of the Care Act 2014 new legislation requires the Council to comply with a range of new duties for adults with needs for care and support. This includes a new responsibility for safeguarding adults from self-neglect.	The Council fails to meet its duties in regard to safeguarding children, young people and adults with needs for care and support. .	• A child, young person or vulnerable adult suffers significant harm • A child, young person or vulnerable adult suffers from exploitation • Avoidable death of a child, young person or vulnerable adult living in the District • Reputational risk for Council • Censure and special measures applied	Alan Hall

Risk No 9 Safeguarding - Action Plan

Existing Controls/ actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
The Council has a Safeguarding Policy (2015), which is updated in line with new legislation. The policy details what is required of all staff and Elected Members and is supported by a set of procedures which set out the process for recording safeguarding concerns, incidents and allegations.	The Council has reduced the risk of safeguarding issues going unnoticed by staff and Elected Members by providing a range of training and production of the new Policy and procedures in 2015.	Leadership Team and Managers to continue to promote vigilance amongst staff. The Council needs to ensure timely response to changes in legislation or local procedures.	Alan Hall	The Council meets all of its duties under Section 11 and 47. The Council meets the new duties of the Care Act 2014. The Council fully meets all aspects of the ESCB/ESAB Safeguarding self - assessment.	Monthly	ESAB (Safeguarding Adult) Audit to be submitted October 2016. ESCB (Safeguarding Children) Audit to be submitted October 2017.
A corporate Safeguarding Group ensures sharing of best practice and information across Directorates and enables the identification of any weaknesses in the Council's work.	This group has become an effective forum for sharing of best practice and commitment from all Directorates is shown.	Directorates need to continue to commit time for representatives to attend the Corporate Working Group.				
Council policies have been developed for all new and emerging safeguarding issues such as Child Sexual Exploitation (CSE).	Several of these policies have been used across Essex as examples of best practice.	An ongoing rolling programme of training needs to be in place, to update and refresh staff and Elected Member awareness in the new and emerging issues.				
A Safeguarding Strategy and Action Plan has been adopted by Cabinet.	The Safeguarding Strategy and Action Plan set out the areas requiring further improvement.					
The Safeguarding Officer and part time Admin. posts have now been proposed as CSB growth.	These posts have enabled a Safeguarding 'Hub', which all EFDC safeguarding issues are filtered through. The number of safeguarding concerns identified in the last year has quadrupled since these posts were introduced.	Finance Cabinet to agree proposal for CSB growth bid to make posts permanent.				
Nursery Worker Accommodation Task Group established.		The group has developed an action plan which is submitted to Management Board.				

Risk No 10 Housing Capital Finance C2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
If the Council is unable to spend right to buy receipts in set timescale on qualifying capital schemes we will have to pay the money to the Government along with interest at a penalty rate. Changes to legislation which reduce income to the HRA. The Government is introducing right to buy for tenants of housing associations financed through the forced sales of Council properties as they become void. A scheme is being piloted initially with five housing associations to assist with the development of a national scheme.	Schemes are delayed by either the planning process or unanticipated site problems. Imposition of rent reduction proposal. Imposition of right to buy scheme which requires the disposal of a large proportion of the Council's void properties.	• Loss of capital resources • Revenues cost of penalty interest • Loss of rental income • Delays in provision of new social housing • Increase in housing waiting list • Current 30 year business plan may become unsustainable.	Alan Hall

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Position being monitored by the House Building Cabinet Committee and a number of contingency options are available including purchasing on the open market.	Effective to date as no loss of funds yet.	Continue close monitoring of financial position. Keeping Members fully informed of the potential consequences of their actions.	Alan Hall	No loss of right to buy receipts.	Monthly	Ongoing
The Council belongs to the Association of Retained Council Housing which lobbies on such issues.	Too early to comment yet as the policy is still being developed.	Monitor policy development/announcements and participate in lobbying if appropriate.	Alan Hall	No loss of Council properties to support right to buy for HA tenants.	Monthly	

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Report to the Finance and Performance Management Cabinet Committee

Report Reference: FPM-012-2016/17
Date of meeting: 15 September 2016

Epping Forest District Council

Portfolio: **Finance**

Subject: **Annual Governance Report**

Responsible Officer: **Bob Palmer – (01992 564279)**

Democratic Services Officer: **Rebecca Perrin - (01992 564532)**

Recommendations/Decisions Required:

To note the External Auditor's Annual Governance Report.

Executive Summary:

The External Auditors will present their Annual Governance Report to the Audit and Governance Committee on 19 September 2016. The report has been placed on this agenda to ensure that members of this Committee are aware of the key issues raised.

The Annual Governance Report was still being completed when this agenda was published and so the report will follow as part of a supplementary agenda.

Reasons for Proposed Decisions:

To ensure that Members are informed of any significant issues arising from the audit of the Statutory Statement of Accounts.

Other Options for Action:

The report is for noting, no specific actions are proposed.

Report:

1. International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council's Statutory Statement of Accounts for 2015/16 is nearly complete and that they wish to present their report to the Audit and Governance Committee on 19 September.

2. As the Annual Governance Report may contain issues that this Committee should be aware of, the report has been placed on this agenda.

Resource Implications:

None.

Legal and Governance Implications:

Any legal and governance implications will be set out by the external auditors in their report.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

Statutory Statement of Accounts and associated reports made to the Audit and Governance Committee and Full Council.

Risk Management:

If the Committee did not receive the Annual Governance Report they may be unaware of a significant issue raised by the External Auditor.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	**Summary of equality analysis**
2/09/16 Director of Resources	The report is to highlight any concerns arising from the external audit. It does not propose any change to the use of resources and so has no equalities implications.

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