Report to the Finance and Performance Management Cabinet Committee

Report Reference: FPM-005-2014/15
Date of meeting: 28 July 2014

Epping Forest District Council

Portfolio: **Finance**

Subject: **Financial Issues Paper**

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

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

Recommendations/Decisions Required:

1. To recommend to the Cabinet the establishment of a new budgetary framework including the setting of budget guidelines for 2015/16 covering:

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

(b) District Development Fund items;

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

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

2. To recommend to the Cabinet the agreement of a revised Medium Term Financial Strategy for the period to 2018/19, and the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.

3. To recommend to the Cabinet a detailed review of fees and charges, specifically parking charges where a detailed study is being undertaken.

4. To recommend to the Cabinet a reduction of 15.4% in parish support, in line with the reduction in the central funding this Council receives.

Executive Summary:

This report provides a framework for the Budget 2015/16 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

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

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

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2015/16.

Reasons for Proposed Decisions:

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

Other Options for Action:

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

Report:

General Fund Out-turn 2013/14

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2013/14 is currently being audited so some amendments may still be made to the outturn figures. In summary the General Fund Revenue outturn for 2013/14 shows that Continuing Service Budget (CSB) expenditure was £149,000 lower than the original estimate and £265,000 lower than the revised. The single largest variance was a £213,000 underspend on Housing Benefits, due to adjustments relating to prior years and increased identifications of overpayments.

2. The revised CSB estimate for 2013/14 increased from £14.368m to £14.484m with the actual being £14.219m. The main in year changes related to the savings on the current waste management contract (£186k) and the inclusion of the New Homes Bonus (£591k) but this was offset to a degree by the reduction in the income from the market at North Weald (£348k). Other savings were seen on the rates charge for the Civic Offices (£87k) and improvements in income (Development Control £56k and rental income £122k). The only other significant cost increase worth mentioing is the £104,000 reduction in administration subsidy receivable from the Department for Work and Pensions.

3. Net DDF expenditure was £1.1 million lower than the revised estimate. However £682,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2014/15, giving a net underspend of £420,000. Three directorates had variances between their revised and actual DDF spending of more than £100,000. The largest variance was £364,000 on Neighbourhoods, of which £103,000 relates to work on the Local Plan. In Resources there was an underspend of £311,000, which includes £138,000 of unbudgeted clawbacks on Council Tax Benefit. Governance had an underspend of £145,000, with the largest single item being an underspend on appeals in Development Control.

4. For the non-directorate items there was a total underspend of £229,000. However, £147,000 of this has been carried forward as it relates to the Langston Road development.There are two large income items included in this section, the first being £446,000 of grant paid by the Government to compensate for reductions in the Council's non-domestic rate income due to the extension of support for small busineeses. The second item is £169,000 of money from the Heritable bank adminstration that had been written off. It now seems likely that the Council will recover 100% of the Heritable deposits.

5. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £4.077m at 31 March 2014. However, most of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan.

6. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend of £551,000. This translates into an increase in balances of £391,000 compared to the revised estimate of a decrease of £160,000.

The Updated Medium Term Financial Strategy

7. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2013/14 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will reduce by £100,000 in 2014/15 before reducing in subsequent years by £258,000 in 2015/16, £736,000 in 2016/17 and £471,000 in 2017/18 before reducing by £194,000 in 2018/19.

8. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2015 of £9.954m represents over 75% of the anticipated NBR for next year (£12.888m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2019 the revenue balance will have reduced to £8.295m. This still represents 65% of the NBR for 2018/19 (£12.71m).

9. The financial position as at 1 April 2014 was better than had been anticipated, reflecting the success of the cost control measures put in place. Further work was done on the 2013/14 revised estimates to identify and reduce budgets with a history of underspending. However the outturn has shown that there are still some areas where further reductions are achievable.

10. The target saving for 2015/16 has been reduced from the original level of £700,000 to £500,000. This is followed by targets of £500,000 for 2016/17, £300,000 for 2017/18 which then reduces further to £200,000 for 2018/19. These net savings could arise either from reductions in expenditure or increases in income. Progress has already been made on the identification of savings, with some of the individual items being covered in reports to Cabinet. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

11. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £1.43m of DDF funds available at 1 April 2019. The four-year forecast approved by Council on 20 February 2014 predicted a DDF balance of £872,000 at the end of 2017/18.

12. Capital balances have been updated for recent outturn figures. The increase in capital receipts from right to buy sales means that the predicted balance at 1 April 2018 which had been estimated in February as £3.1m now increases to £5.7m. Over the next four-year period the capital programme has approximately £66m of spending, inclusive of the HRA. Previously the need to use capital balances for revenue generating assets has been highlighted and this has been included in the Capital Strategy.

Continuing Services Budget

13. The CSB saving against revised estimate was £0.551m, compared to £0.498m in 2012/13. A significant cause of this under spend was again salary savings, with there being an underspend of £180,000 on the revised estimate for the General Fund. This was due to

some changes in the new directorate structures and associated recruitments taking longer than initially predicted. There is currently an under spend on the salaries budget in 2014/15 and this is expected to continue, although at a reduced level as phase 2 of the organisational restructure is implemented.

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

15. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Retained NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have not indicated any desire to contradict Government guidance that council tax increases should be frozen again for next year, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that council tax would increase annually by 2.5% after 2015/16. Previously Members had a policy under which increases in council tax had been linked with increases in the rate of inflation. For information, RPI is currently 2.6% and CPI 1.9% (June 2014 figures, released in mid-July) and inflation forecasts retain an important role in estimating future costs. However, in these ongoing difficult economic times Members have indicated a desire to limit the burden on hard pressed tax payers and so no increase has been allowed for in 2015/16.

16. The latest four-year forecast (annexes 1a & b) show that the original budget for 2014/15 missed that objective, as funding from Government Grants and Local Taxpayers was £233,000 below CSB. The revised estimate for this year shows a net decrease of £75,000 in CSB at this time although that is likely to change as we go through the budget process.

Central Government Funding

17. Some of this section, and indeed subsequent sections, is very similar to last year. As we have seen significant changes from the start of 2013/14 and are only a year and a half into these changes, it seems appropriate to provide this background again while Members become familiar with the new system.

18. When the Four Block Model was replaced with Funding Assessments, Local Council Tax Support (LCTS) was introduced at the same time. This meant for 2013/14 an analysis of the Funding Assessment was provided detailing the individual elements. Rather unhelpfully the DCLG have not provided a separate figure for LCTS Grant for 2014/15, this means it is necessary to provide two comparative tables below to illustrate the reductions in funding. The first table is based on Formula Grant but this is only possible up to 2013/14.

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

19. The figures shown above illustrate the substantial annual reductions that began in 2011/12. Even using the adjusted figure of £8.710m for 2010/11, Formula Grant has reduced by £2.66m or 31% in the period to 2013/14. From 2014/15 Formula Grant has not been separately identified so a different comparison is needed.

	2013/14 £m	2014/15 £m	2015/16 £m
Formula Grant	6.050	Not known	Not known
Homelessness Grant	0.113	Not known	Not known
Local Council Tax Support Grant	1.119	Not known	Not known
Funding Assessment	**7.282**	**6.375**	**5.393**
Increase/(Decrease) £	n/a	0.907	0.982
Increase/(Decrease) %	n/a	12.5%	15.4%

20. By providing only figures at the Funding Assessment level for 2014/15 and 2015/16 the DCLG has prevented a detailed comparison with earlier periods. However, it can still be seen that in three years under this new system funding reduces by £1.889m or by 25.9%. Using the two tables to make a crude comparison it can be seen that over 5 years funding has fallen by nearly 60%. Recent statistics on the national finances and public sector borrowing have highlighted that the recovery is still to generate additional tax revenues and reductions in the welfare bill. In practical terms this means austerity will be with us for some time yet and regardless of the outcome from the general election further reductions are likely in local government funding.

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

22. We do not have separate figures now for Local Council Tax Support, let alone a detailed split between the district and the parishes. In the absence of this information it is fair to assume the overall reductions of 12.5% and 15.4% are common to each element of the Funding Assessment. Funding to parish councils was reduced on that basis in 2014/15 and a consistent approach is proposed to reduce this by 15.4% for 2015/16 (£42,604). These amounts need to be seen in the light of the total parish precepts for 2014/15 being over £3m.

<u>Business Rates Retention</u>

23. Members who attended either the previous meeting of this Committee or the recent training will be familiar with the mechanics of business rates retention. However, as these two events did not attract the majority of Members a brief explanation of the system is repeated below.

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

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

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

26. The basic amounts within the system are now fixed for an extended period, DCLG have stated that the system will not be re-set until 2020. Although this does not apply to the tariff payments that will be increased annually by inflation, we have been given indicative tariff figures of £10.038 million and £10.315 million for 2014/15 and 2015/16 respectively.

27. Overall the predicted total level of non-domestic rates was broadly in line with the current position and it was felt unlikely that the Council will have either a large initial shortfall or any windfall gain from the new system. There was a major concern here though due to the way appeals and refunds are treated within the system. Even though DCLG have already had the benefit of non-domestic rates paid in respect of periods prior to 1 April 2013, all appeals regardless of start date are accounted for within the new system. This means billing authorities will be refunding money that they have not benefited from in the first place. It also means that in getting to a predicted level of non-domestic rates for 2013/14, allowance had to be made for the amount of money we anticipated having to pay out in appeals and refunds.

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

29. Having had that reminder of the structure of the system we can reflect on how the first year went and what the future prospects are. The 2013/14 figures are still subject to audit but at this time the total amount of non-domestic rate income looks to have fallen approximately £1 million short of the £31.9 million target. The outstanding appeals reduced the income during the year when they were paid out and the year-end numbers include a provision of £1.5 million for the appeals that are still to be settled. There was one particular appeal settled in the year that is worth mentioning. A pipeline runs through the district to a power station in Enfield and historically we have issued a bill for the pipeline and the London Borough of Enfield has issued a bill for the power station. The energy company appealed as they wanted to reduce their liability and receive a single bill. Unfortunately for us the appeal was successful and this Council had to pay a refund and interest of £1.6 million (as the appeal was backdated to the 2010 rating list) and the pipeline is now included in the bill issued by Enfield for the power station.

30. When the system was set up one of the features was the fixing of the funding for the year at the start of the year. This means the deficit on the Collection Fund for 2013/14 is not accounted for until 2014/15 and the income reflected in the accounts for 2013/14 is the amount originally estimated not the actual. Our share of the deficit to account for in 2014/15 had been estimated at £250,000 and this was included in the DDF for that year, this will need to be increased to the actual share of £400,000.

31. The other aspect of the system to reflect on is cash collection and thankfully we have far more control over that than we do over appeals. 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.

32. Members recognised the increasing importance of cash collection in the new system and increased the CSB budget by £25,000 to fund legal action in difficult, high value cases. This proved a sound investment as the collection rate was boosted from 96.85% to 98.09%. This exceeded the target of 97.5% and was the highest collection rate for several years. This meant that, even allowing for the appeal refunds, it was possible to fund all of the payments required by the system without reducing the Council's investment balances.

33. Having reflected on the mechanics of the system and the first year of operation we now need to consider the future. Firstly, is that shortfall in funding likely to continue? This would seem unlikely as the pipeline issue was very much a one-off shock and a substantial provision based on external professional advice has been included at the year end. As the next updating of the rates list has been postponed to 2017 another fresh batch of appeals should not be received for some time. Historically we have seen growth in the rating list each year and with the sites covered in the section on development opportunities there are good prospects for future growth.

34. It is difficult to predict what the outcome of the general election will be and so the role of retained business rates within the system of local government funding may change. The current Secretary of State has recently indicated that he would like to see an increase in the percentage retained. If this was to happen and the various development opportunities were to be taken forward it is possible to contemplate a position within 5 years when the Council could be self-sufficient and not rely at all on revenue support grant. As we cannot yet accurately predict completion dates or rateable values for the developments the MTFS has not assumed either any growth or any shortfall in funding from retained business rates. This is a very prudent position that will be considered again as the budget cycle moves forward.

35. One other aspect of the new scheme worth mentioning is the ability to pool with other authorities to share risk and possibly reduce levy payments. The DCLG were very late issuing guidance last year and so although most Essex authorities were keen on pooling in principle, no agreement was possible for 2014/15. The possibility of pooling will again be examined through the Essex Leaders Strategic Finance Group with the intention of having a pool in place for 2015/16.

Welfare Reform

36. This phrase is used to capture a number of initiatives that are radically changing the way many benefits are paid and the amounts of those benefits. The single largest change from 1 April 2013 was the abolition of Council Tax Benefit and its replacement with LCTS. For that first year much effort went in across the county to develop, consult on and implement schemes aimed at being self-financing. Because of the requirement to protect people of pension age and the different demographics across the county it was not possible to agree a single uniform scheme but a number of common principles were agreed that all of the schemes were based on.

37. In constructing our own scheme we were always conscious that some of the assumptions being used by the DCLG and the Department for Work & Pensions (DWP) meant that talk of a 10% saving would in reality mean a funding gap closer to 15%. This meant many variables were modelled and considered before a draft scheme was agreed by Cabinet for consultation and finally adoption by Council in December 2012. The outturn shows that the 2013/14 scheme did its job and even returned a small surplus. As in-year monitoring had indicated that the scheme was working well no significant changes were made to the scheme for 2014/15.

38. A report will be considered by Cabinet on 21 July to evaluate potential changes to be made to the scheme for 2015/16 and the consultation on these changes. In the section above on central government funding I explained that DCLG no longer tell us how much of the funding we get is for LCTS. On the basis that overall funding is reducing and without any other facts it is reasonable to assume that LCTS funding is reducing to the same extent as the overall funding. This presents us with a choice, we can either reduce the amount of money allocated for LCTS and consequently increase the size of the bills for those receiving support or we can subsidise LCTS by making reductions in other General Fund areas to pay for it. Which of these options an individual supports will probably be influenced by whether or not they are currently paying all of their Council Tax.

39. It appears that in dealing with first time payers there is an acceptable range of bill that has tipping points either side. If you try and charge these people too much they will have no hope of paying and will ignore the debt. If you charge these people too little they will think you will not try and enforce such a small debt and will ignore it. So in trying to claw back any reduction in grant through increasing the 20% to 30% or more we need to be careful that we do not create a situation where we actually end up collecting less. The collection rate last year for people previously on 100% Council Tax Benefit was 78.9% which is nearly 20% lower than the 97.93% achieved for non-benefit/support cases.

40. It is worth taking this opportunity to briefly update on some of the other welfare reforms. Both the Benefits Cap and the Spare Room Subsidy (also known as the “Bedroom Tax”) were delayed but have now been introduced. Indications are that the impact of these changes has not caused major problems for many residents. There has been some demand amongst those deemed to be under-occupying to downsize but many have decided to stay where they are and pay a higher proportion of their rent themselves. This may or may not be sustainable in the long term.

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

New Homes Bonus

42. The amount of New Homes Bonus (NHB) payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average Council Tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. There are still three months to go before the additional amount for 2015/16 will become clear, but based on the position at 1 July it appears we should receive approximately £130,000.

43. Last year there was concern with the re-working of local government funding that the NHB might have been removed or diminished in some way. There was a proposal that local authorities would lose 35% of their NHB to fund the Local Growth Fund which would have been administered by Local Enterprise Partnerships (LEPs). Thankfully the overwhelming opposition from both local authorities and LEPs saw this idea abandoned. This authority has done relatively well from NHB and £1.82m was included in CSB income in 2014/15.

44. There is still a concern as many areas of the country are unhappy with the re-distributional effect of NHB and whoever wins the general election is likely to evaluate amendments to the current scheme. It has to be remembered that the funding for NHB was top sliced from the overall local government funding pot. If a worst case scenario happens and the scheme is entirely scrapped it will take at least a year for an alternative allocation system to be devised. An alternative allocation system may not be as generous to this Council but the funding would not be completely lost as any new allocation system normally has floors and ceilings to prevent large fluctuations in funding in any one year.

45. Previously NHB for future years has not been anticipated in the MTFS and given the uncertainty beyond the general election this is still a prudent assumption. The inclusion of the additional £130,000 in 2015/16 takes the NHB income in the CSB to £1.95 million.

Development Opportunities

46. There is a separate Cabinet Committee for co-ordinating asset management issues so I do not intend to devote too much space to developments. However, it is necessary to touch briefly on the number of opportunities that currently exist in the district and their potential benefits. This is particularly important given the potential changes mentioned above to retained business rates and the recent very encouraging progress on several schemes.

47. In order of their states of progress, the first scheme to mention is the re-development of the Winston Churchill public house site. Whilst this is a relatively small site it will bring in additional non-domestic rates and NHB and work has already commenced on site. The next on the conveyor belt is a mixed use re-development of the St Johns area in Epping, with the proposed Heads of Terms going to Cabinet on 21 July. This is a more substantial scheme and it is likely to bring considerable benefits to the district. Cabinet on 21 July should also receive a report on the Langston Road shopping park development and the potential name for the site, which needs to be agreed before marketing of the units can commence. The fact that the new waste management contractor has their own depots has freed up this site earlier than had been anticipated. Other possibilities for Waltham Abbey and North Weald are further off but should not be forgotten.

48. Even though there has been good progress there remains a lack of certainty at this time about the completion dates and composition of the schemes. Progress will be kept under review during the budget cycle but at this time neither the MTFS or the capital projections include either any capital financing requirement or any revenue projections. The only budgets that are included for the developments are those that Members have already approved for preliminary consultancy and planning works.

Income Streams

49. At this time last year there was concern about several of the key income streams that are monitored on a monthly basis. During the second half of the year most of the income streams performed well and the outturn for some exceeded the revised estimate. The position for this year at the end of June is –

Activity	Annual Estimate	Estimate to end June	Actual to end June	Possible Shortfall/(Surplus)
Building Control	£386,000	£108,010	£105,846	£8,000
Dev. Control	£515,000	£126,340	£180,937	(£35,000)
Land Charges	£194,940	£50,250	£66,667	(£30,000)
Licensing	£295,610	£59,630	£66,379	(£10,000)
Fleet Ops.	£227,830	£62,340	£60,536	£7,000

50. It is too early in the year to draw strong conclusions from this data as monthly trends do fluctuate between years and one or two large applications can make a big difference on development control. However, at this stage the indications are encouraging and the improved income position in the second half of 2013/14 has continued into 2014/15.

51. There is a note of caution on Land Charges as the legal position of this service and the role that local authorities will play in the future is uncertain. It is possible that the Land Registry may take on some central role but this would involve the development of a national computer system and this has caused the Government to pause for thought. One other point worth making is that we are required to provide this service at cost and so assuming that in the event of a transfer it was possible to transfer or eliminate the costs then the overall financial impact would not be significant.

52. The other key income stream worth commenting on is the market at North Weald. As the operator was experiencing financial difficulties the Council agreed to a reduced rent, which included a profit share element if the income exceeds a given level in any individual week. So far the level of income necessary to trigger the profit share has not been reached in any week, although the market is continuing to trade on an adequate basis and still attracts approximately 180 traders. The CSB estimates were reduced to a lower level but this will need to be kept under review.

53. Last year saw the first change to parking fees for many years and a detailed study is underway to consider how the charging scheme might be amended in future to ensure short term spaces are available for shoppers. Recommendations from this work are likely to be presented separately from the annual review of fees and charges later in the budget cycle.

Waste and Leisure Contract Renewals

54. Two of the Council's high profile and high cost services are provided by external contractors, SITA for waste and SLM for leisure. The current waste contract expires in November 2014 and the procurement exercise has been completed with the new contract being awarded to Biffa. A competitive dialogue procedure was used to seek innovation and efficiency in the provision of this service. It has been possible to procure the service at a lower cost than the current contract and these savings have been included in the MTFS.

55. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. A Leisure Strategy is currently being prepared and as part of this serious consideration will need to be given to what is now the appropriate role for local authorities in leisure provision. The budget book for 2014/15 includes net expenditure of over £2m for leisure facilities and this is not sustainable in the long term given the Council's financial position.

Organisational Review

56. The 2014/15 budget included the effects of the first stage of the organisational restructure. This involved a reduction in the numbers of Directors and Assistant Directors and saw services consolidated into four new directorates. Each directorate is now evaluating both opportunities to improve efficiency and areas that have been historically under resourced. It is likely that this process will yield some savings but will also highlight some additional funding requirements. At the moment the MTFS has not been adjusted for any changes to the organisation from this second phase. It is likely that the changes will necessitate amendments to both CSB and DDF.

57. A budget of £150,000 was included in the DDF for 2014/15 to allow the Chief Executive to take forward Transformational Projects. Whilst this funding was included in the budget Members have asked for a business case to be presented before any individual projects are approved.

DDF

58. The carry forward of £682,000 represents a decrease of £154,000 on the £836,000 of slippage for 2012/13. The two largest carry forwards have already been mentioned above and relate to the Langston Road development (£147,000) and the Local Plan (£103,000). Requests for carry forward are scrutinised by this Committee at the June meeting each year, as part of considering the draft revenue outturn report, and it is accepted that DDF money will not automatically be carried forward. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions need to be answered over whether it was really a priority and if that money could have been used for a more urgent purpose.

59. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £1.43m of DDF available at 1 April 2019.

The Capital Programme

60. The Government's attempt to boost right to buy sales by increasing the discount that tenants can receive to £75,000 has been successful. In 2013/14 sales increased to 53 from 13 in 2012/13. There have been a further 7 sales in the first three months of 2014/15. The Capital Programme has been adjusted to reflect this higher level of Council house sales.

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

62. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 26 June 2014 highlighted that the variance of £2.6 million was a substantial increase on the previous year's figure of £2,000. Non-housing expenditure was £2.2m below the estimate at £1.29m, whilst housing expenditure of £10.68m was £347,000 below the estimate of £11.03m. The slippage in the programme will be carried forward to subsequent periods.

A revised Medium Term Financial Strategy

63. Annexes 1 (a & b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £500,000 for the two years 2015/16, 2016/17 before reducing to £300,000 for 2017/18 and £200,000 for 2018/19. These savings would give total CSB figures for 2014/15 revised of £13.699m and 2015/16 of £13.146m.

64. This proposal sets net DDF expenditure at £2.269m for the revised 2014/15 and £204,000 for 2015/16, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

65. No predicted non-housing capital receipts are being taken into account, as any developments are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £17.462m at 1 April 2014 to £5.702m at 1 April 2019.

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

The Council Tax

67. The Government announced in June 2013 that it will continue to provide an incentive for authorities to freeze the Council Tax for both 2014/15 and 2015/16. Additional grant equivalent to a 1% increase in the Council Tax will be available and Councils seeking to raise Council Tax by more than 2% will have to conduct a referendum. From 2016/17 onwards it is assumed that future increases will not exceed 2.5%.

Conclusion

68. The Council is in a stronger financial position than had been anticipated, despite the reductions in funding set out earlier in the report this is the fourth consecutive year when the General Fund Reserve has increased. We are also better informed now about LCTS and retained business rates. Indeed retained business rates offers this authority a realistic prospect of becoming self-financing over the medium to long term. If the percentage of rates retained locally is increased and the strong progress on our development sites continues the Council will be very well placed.

69. However, there is a General Election next year and so whilst some of the uncertainty around the changes from 2013/14 has been removed there is now greater uncertainty overall for the medium term. It is possible that an incoming Government may have a different view on NHB, LCTS, retained business rates or any other aspect of local authority financing.

70. For the moment we can only deal with the systems that are currently in place and look to see how we can best safeguard the Council's finances for the future. The updated MTFS sets out a programme of net savings that is challenging but achievable and our financial strength allows us to look for the necessary savings over the medium term. This is better for service planning as a more considered and structured approach can be taken than if all the savings were required in one year