Supplementary Committee Agenda

Epping Forest District Council

Cabinet
Monday, 30th January, 2012

Place:	Council Chamber Civic Offices, High Street, Epping
Time:	7.00 pm
Democratic Services:	Gary Woodhall - The Office of the Chief Executive Tel: 01992 564470 Email: democraticservices@eppingforestdc.gov.uk

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16. COUNCIL PROPERTY ASSET STRATEGY OPTIONS (Pages 149 - 152)

(Finance & Economic Development Portfolio Holder) To consider the attached report (C-057-2011/12).

17. EXECUTIVE APPROVAL - BUDGET 2012/13 (Pages 153 - 160)

(Finance & Economic Development Portfolio Holder) To consider the attached Annex 6 alongside the report that has already been published.

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Report to the Cabinet

Report reference: ***C-057-2011/12***
Date of meeting: ***30 January 2012***

Epping Forest District Council

Portfolio: **Finance & Economic Development**

Subject: **An assessment of potential strategy options relating to Council property assets and associated costs.**

Responsible Officer: **Chris Pasterfield (01992 564124).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Decisions Required:

(1) That the Council agrees to sanction a DDF bid of expenditure up to £205,000 for 2012/13 to cover consultant feasibility costs for nine projects as detailed below.

Executive Summary:

This report asks for funds to employ consultants to carryout design, valuation and costing of potential development for a number of projects in order for strategic decisions to be made regarding future use, sale and development including making planning applications as necessary. By obtaining this data the Council will be able to better assess risks associated with the proposals.

Reasons for Proposed Decision:

To achieve best value and most efficient use of Council property assets.

Other Options for Action:

To not progress sites. This would mean that the Council does not obtain information on cost, value, and risk from professional consultants on which to make decisions regarding the properties which may indicate that they should be sold, held, developed by the Council, developed in partnership. A potential development site could also be substantially de-risked by obtaining a planning approval, which might include other approvals such as approval from the highway authority which might otherwise be a barrier to development. It would also mean that the Council is unable to test the current market for capital or rental value or other remuneration such as affordable housing.

Report:

1. The Cabinet approved a budget of £195,000 at the meeting on 1 February 2010 to evaluate sites development potential and substantial progress has been made on a number of sites.

2. At the Cabinet meeting on 19 July 2010, expenditure was approved to fund half of the cost of making a planning application for a retail park on the Langston Road Depot and adjoining land owned by Polofind Ltd.

3. Progress on these sites is regularly reported to the Asset Management Coordination Group and the North Weald Airfield and Asset Management Cabinet Committee.

4. Current expenditure or committed expenditure for the projects approved at the Cabinet on 1 February 2010 are as follows:

Oakwood Hill Depot	£23,170
Langston Road Depot	£31,162
Merlin Way Business	£30,000
Town Mead Depot	£ 5,000
Church Hill Car Park	£ 4,000
Torrington Drive	£20,500
Sir Winston Public House	£16,770
St John's Road	£19,500
Medical Centre North Weald	£ 10,026
Pyrles Lane Nursery	£ 9,000
Cartersfield Road	£ 4,500
Broadway Car Parks	£19,545
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Total	£193,173

5. The Budget Estimate for 2012-2013 is as follows:

Oakwood Hill Depot	£20,000
Langston Road Depot	£30,000
North Weald Airfield	£50,000
Town Mead Depot	£20,000
Church Hill Car Park	£10,000
The Broadway/Torrington Drive	£25,000
Sir Winston Churchill Public House	£20,000
Pyrles Lane Nursery	£20,000
Additional Public Toilet Facilities	£10,000
	=========
Total	£205,000

6. The estimated Gross Development Values for these sites range from £750,000 to £38million and are indicative figures based upon current information. The final values will be dependant on a number of variables including such matters as grant of planning permission and factors as revealed by consultants' reports and negotiations.

7. Current Project Status:

(a) Oakwood Hill Depot – Norfolk Property Services have been appointed as design and planning consultants to look at different options. Topographical, ecological, tree and highways surveys have been completed. NPS have undertaken a Sustainable Energy Report. Agreed designs will then be submitted for planning approval.

(b) Langston Road Depot – planning application submitted December 2010. Highway improvement works are being agreed with Essex Highways and it is anticipated that the application will be considered at a planning committee within two months. Development and legal consultants are progressing negotiations with Polofind Ltd the owners of the other half of the site to formalise a development agreement.

(c) North Weald Airfield – Following the Halcrow Report, the Council are considering uses within and outside the airport perimeter including the possibility of a depot for the refuse contractor service.

(d) Town Mead Depot – A topographical survey has been completed and a report on flood issues received from Peter Brett Associates. It is anticipated that further discussions will be required with the Environment Agency before an outline planning application can be considered.

(e) Church Hill Car Park – a number of potential future uses are being considered including temporary ones.

(f) The Broadway/Torrington Drive – There are on going talks with Stobart Properties who own the long leasehold interest in the Sainsbury site. A number of sites to the north and south of the Broadway are being considered for a variety of development.

(g) Sir Winston Churchill PH – negotiations are continuing with Punch Taverns for the redevelopment of the site to include retail with residential above in accordance with the planning development brief.

(h) Pyrles Lane Nursery – topographical, highways and tree surveys have been carried out and a residential layout plan has been prepared by the Council's architect. Further survey work maybe required before a planning application can be considered.

(i) Public Toilets – the Council has resolved to consider the provision of public toilets in the District which may include entering into legal agreements with private business to allow their toilets to be open to the general public.

8. The budget required to progress the different scheme options for St John's Road, Epping and to carry out the public consultation will be financed from the LDF money already allocated within the DDF budget.

Resource Implications:

£205,000 of District Development Funding for 2012/13.

Legal and Governance Implications:

Section 123 Local Government Act 1972 – best consideration for the land and property assets.

Safer, Cleaner and Greener Implications:

Each site will have implications that need to be taken into account which will become apparent as the scheme progresses.

Consultation Undertaken:

Asset Management Co-ordination Group.

Background Papers:

None.

Impact Assessments:

Risk Management
If specialist consultant advice is not obtained then it may not be possible to progress the assessment of risk or there may be insufficient information for an accurate risk assessment to be made.

Equality and Diversity
No implications at this time.

Annex 6

The Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2012/13 budgets and the adequacy of the reserves.

Introduction

1. The Local Government Act 2003 section 25 introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2012/13. If this advice is not accepted, the reasons must be formally recorded within the minutes of the Council meeting. Council will consider the recommendations of Cabinet on the budget for 2012/13 and determine the planned level of the Council's balances.

2. Sections 32 and 43 of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

3. There are a range of safeguards, which exist to ensure local authorities do not over-commit themselves financially. These include:

   - The CFO's s.114 powers, which require a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget
   - The Prudential Code, which applied to capital financing from 2004/05.

The Robustness of the Recommended Budget

4. A number of reports to the Cabinet in recent years have highlighted the difficulties inherent in setting budgets, not least because of significant changes in the level and complexity of Government funding and continuing pressure to protect and develop services. At the same time major changes have been introduced to the way the Council is structured and managed and the way services like waste and leisure are delivered. These changes and the "Credit Crunch" are still ongoing and represent significant risks to the Council's ability to assess properly all the financial pressures it faces.

5. However the Council's budget process, developed over a number of years, has many features that promote an assurance in its reliability:

   - The rolling four year forecast provides a yardstick against which annual budgets can be measured
   - The early commencement of the budget process and the clear annual timetable for both Members and officers including full integration with the business planning process promotes considered and reasoned decision making
   - The establishment of budget parameters in the summer is designed to create a clear focus before the budget process commences

- The analysis of the budget between the continuing services and one off District Development Fund items smoothes out peaks and troughs and enables CSB trends to be monitored
- The adoption of a prudent view on the recognition of revenue income and capital receipts
- The annual bid process whereby new or increased budgets should be reported to Cabinet before inclusion in the draft budget
- Clear and reasoned assumptions made about unknowns, uncertainties or anticipated changes

6. Changes to the process have also created the facility for far greater consultation, particularly with the development of the Overview and Scrutiny Panel which deals with finance and performance management issues. With a Cabinet system the onus is on Portfolio Holders to work closely with Directors to deliver acceptable and accurate budgets. This role has been taken seriously and has helped enhance the detailed knowledge of the Cabinet.

7. The budget is therefore based on strong and well-developed procedures and an integrated and systematic approach to the preparation of soundly based capital and revenue plans and accurate income and expenditure estimates. The risks or uncertainties inherent in the budget have been identified and managed, as far as is practicable, and assumptions about their impact have been made.

8. **The conclusion is that the estimates as presented to the Council are sufficiently robust for the purposes of the Council's overall budget for 2012/13.**

Factors to be taken into account when undertaking a Risk Assessment into the overall Level of Reserves and Balances

9. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when the CFO considers the overall level of reserves and balances:

   - Assumptions regarding inflation;
   - Estimates of the level and timing of capital receipts;
   - Treatment of demand led pressures;
   - Treatment of savings;
   - Risks inherent in any new partnerships etc;
   - Financial standing of the authority i.e. level of borrowing, debt outstanding etc;
   - The authority's track record in budget management;
   - The authority's capacity to manage in-year budget pressures;
   - The authority's virements and year-end procedures in relation to under and overspends;
   - The adequacy of insurance arrangements.

10. These issues have formed the basis for budget reports in the past and they remain relevant for the current budget.

Factor Assessment

a. Inflationary pressures

11. Every year base budget estimates are produced and then different inflation factors are applied to the resultant figures to take budgets to out-turn prices. It is inevitable that there will be either over or under provision for the full cost of inflation, as prices will vary against the estimates made. Efforts have been made to predict the level of inflation in the coming year, although the difficulty in making these predictions is highlighted by inflation remaining stubbornly high and above the target for, and predictions of, the Monetary Policy Committee. Inflation, as measured by the annual rate of increase in the Retail Prices Index, reduced from 5.2% for November to 4.8% for December. Over this period the Consumer Prices Index (CPI) fell from 4.8% to 4.2% and so is still double the Government target of 2%. However, whilst recovery in the overall economy remains weak the Monetary Policy Committee are likely to continue their cautious stance and not strongly intervene with increases in interest rates to reduce inflation.

12. Inflation, as measured by CPI, has been 4% or more for over a year now and has contributed to pressure for a pay award. Pay rates have been frozen since 2010/11 and the Government has stressed the need for restraint in public sector pay over the length of the Comprehensive Spending Review. The Medium Term Financial Strategy (MTFS) includes an allowance of 1% for pay awards for 2013/14 and 2014/15, in line with the Government's policy. In the budgets the centrally held vacancy allowance has been maintained at 2.5%. This reflects the ongoing underspends, with total salaries at December 2011 being 4.5% underspent. It is unlikely that the Authority will have a full establishment throughout 2012/13 and so this allowance is reasonable.

b. Estimates on the level and timing of capital receipts

13. The Council has always adopted a prudent view on the level and timing of capital receipts. Capital receipts are not recognised for budgetary purposes unless they have been received or their receipt is contractually confirmed prior to the budget being ratified. Currently, no significant disposals are anticipated in 2012/13.

14. The exception to this relates to receipts from council house sales. In this instance because sales occur throughout the year assumptions are made about their generation. Although sales have fallen dramatically from previous years and the pattern of less than 10 sales per annum is expected to continue. Clearly if the forecasts contained in this report are not realised in full, there could be a financial impact on the General Fund because investment income to that account has been based on that level of sales. However, this is relatively unlikely given the low numbers involved.

15. Even with the Authority's substantial capital programme, which exceeds £78m over five years, it is anticipated that the balance of usable capital receipts at 31 March 2016 will be £8.1m. The Capital Strategy continues to emphasise that priority will be given to capital schemes that will create future revenue benefit, either through increased income or reduced costs.

c. Treatment of demand led pressures and savings

16. Demand led pressures on the benefits and homelessness services may well increase as the Welfare Reforms begin to impact. Locally the stagnation in the housing market seems to be improving, with some increases in key income streams like planning and building control fees and land charges. The move away from prescribed planning fees, with Council's being able to seek full recovery of their costs, has not yet happened. However, the Council remains hopeful that this measure will be introduced in 2012/13 as the additional freedom in setting charges would be welcomed.

17. Savings have been achieved for the 2011/12 and 2012/13 budgets by focusing on areas that have historically underspent. There has been some history in recent years of the budget as a whole being underspent and an exercise was undertaken to limit budgets going forward to the average amount spent in the previous three years. This removed over £500,000 from the CSB over the two years. The other key saving has been on the waste management contract which has been extended following negotiations that generated annual savings of £850,000. A number of other smaller savings have also been identified and together these provide a sound base for the 2012/13 budget. However, there is still a need for further savings in 2013/14 and 2014/15 and work is ongoing on a number of ideas to reduce net costs.

d. Risks inherent in partnership arrangements etc

18. There are several partnership arrangements, some of which carry risks of varying degrees in monetary terms. The risks have not been specifically identified in the budget but are underwritten through the Authority's balances.

e. Financial standing of the authority (i.e. level of borrowing, debt outstanding etc)

19. The Authority is currently debt free, although with self-financing for the Housing Revenue Account (HRA) this will change before the year end. This is not a significant concern as the 30 year business plan for the HRA has demonstrated that the Authority will be considerably better off in the long term. Revenue reserves for both the General Fund and the HRA are in a healthy state.

20. The largest threat to the Authority's financial standing is the replacing of the block grant system with a new model under which authorities are financed through locally retained business rates. This system will come in from 2013/14 and no figures have yet been provided by the Government. There are two concerns as the funding could drop initially under the new system, and going forward the authority could see reductions in funding if the level of business rates collected in the district reduces. There is a potential upside as if the amount of business rates increases the authority should be able to retain 80% of that growth.

21. There is also significant concern about the localisation of Council Tax Benefit (CTB) from 2013/14. The Authority will receive a fixed grant of 90% of current expenditure and will have to choose between passing this cut on to those currently in receipt of CTB or supplementing the scheme with its own resources. The monetary shortfall will exceed £1 million and this will increase if the number of claimants increases. The MTFS has been based on the assumption that the Authority will not top up the Government funding.

f. The authority's track record in budget management, including its ability to manage in-year budget pressures

22. The Authority has a proven track record in financial management as borne out by the Annual Audit Letters from the Authority's external auditors. A comparison of actual net expenditure with estimates over a number of year's shows that the Council rarely experiences over spends of any significance.

23. Most managers have received training on budget management. A course involving an external trainer, the CFO and the Chief Internal Auditor has now been supplemented with additional detailed training on a directorate basis being provided by accountancy staff.

24. The quarterly budget monitoring reports on key budgets to both the Finance and Performance Management Cabinet Committee and Scrutiny Panel will continue throughout 2012/13. The production of these reports during the year is essential in identifying emerging problems at the earliest opportunity. This allows maximum benefit to be accrued from any corrective action taken.

g. The authority's virement and year-end procedures in relation to under and overspends

25. The Authority has recognised and embedded virement procedures that allow funds to be moved to areas of pressure. Although underspends and overspends are not automatically carried forward, the Authority does have an approved carry forward scheme for capital and DDF which is actioned through the formal provisional outturn report to the Finance & Performance Management Cabinet Committee in the summer of each year.

h. The adequacy of insurance arrangements

26. The Authority is now part way through a three year contract, which commenced in June 2010. This contract was entered into following a collaborative procurement exercise with twelve other authorities and has an option to extend for an additional two years. The Authority still maintains an insurance fund, which as at 31 March 2011 had a balance of £424,000.

i. Pension liabilities

27. The latest triennial valuation as at 31 March 2010 showed a reduction in the funding level of the scheme to 71% (the value of the scheme's assets only cover 71% of the liabilities). However, the actuaries have been able to keep the deficit payments at a similar level for three years by increasing the deficit recovery period from 20 to 27 years. Ongoing contributions have benefitted from a slight reduction from 13.1% to 13%.

28. Annual applications have been made to Department for Communities and Local Government (DCLG) for capitalisation directions, as separate directions are required for the Housing Revenue Account and the General Fund. It has been increasingly difficult to obtain capitalisation directions and for 2011/12 the qualifying criteria were doubled. Even though the applications for 2011/12 met the tougher criteria they were still rejected by DCLG. In view of this the full amounts of the deficit payments have been included in the CSB. This means these commitments are now funded but still allows applications to be made, subject to any further tightening of the criteria.

Statement on the adequacy of the reserves and balances

29. The Use of Resources assessment previously conducted by the external auditors moved on from the formulaic approach of CPA to achieve the 'good' ranking for reserves. The old formula had suggested that the Council should maintain a General Fund balance of at least £0.89m but no more than £17.86m. The Council's current best estimate of the General Fund balance at 31 March 2013 is £8.6m as shown in the Annex 4 b. This is clearly within the range specified but as a benchmark is not particularly useful. Therefore a risk assessment related to the Authority's individual circumstances is provided as a more meaningful benchmark against which the adequacy of the balances can be determined.

30. The following table lists those developments and cost pressures within the four-year forecast that offer the greatest risk to financial stability.

Item of risk	Estimated level of financial risk £000	Level of risk %	Adjusted level of risk £000
Basic 5% of Net Operating Expenditure			800
Grant reduction being 20% instead of 10% over last 2 years of CSR	650	50	325
Pay award being settled 1% in excess of estimate for 12/13 and future years	800	20	160
Inflationary pressures between 1-4% higher than budget	600	20	120
Loss of North Weald Market Income	4,000	20	800
General Income between 1-4% less than budget	600	10	60
Unintended consequences of HRA reform impacting on General Fund	2,000	20	400
Localisation of Council Tax Benefit shortfall funded from 13/14 to 15/16	3,500	40	1,400
Renegotiating External contracts and partnership arrangements	1,000	10	100
Emergency Contingency	800	20	160
New Homes Bonus, income over MTFS greater than anticipated	(1,200)	30	(400)
Total	12,750		3,925

31. The income generated from the market at North Weald airfield is significant to the ongoing financial well being of the Authority. Uncertainties surrounding the future of the airfield create a risk to the Authority that needs to be recognised and quantified hence its inclusion in the list above.

32. A number of contracts have been granted to outside bodies for the provision of Council services. The failure of any of these contracts would inevitably lead to the Council incurring costs, which may not be reimbursed. Other than certain bond arrangements there is no specific provision made in the estimates for this type of expenditure, which therefore would have to be covered by revenue balances.

33. The presentation in this table is not a scientific approach, but a crude attempt to put a broad order of scale on the main financial risks potentially facing the Council. It is meant to be thought provoking rather than definitive. It is certainly not a complete list of all the financial risks the Council faces but it shows the potential scale of some of the risks and uncertainties and the impact they may have on the Council's balances if they were to come to fruition.

34. Based on the old CPA formula there is an expectation that an authority should carry a level of balance that equates to at least 5% of the net operating expenditure (NOE) of the Authority. During the period of the four-year plan NOE is expected to average out at £15.4m, which suggests a figure of £800,000.

35. The Council has always been conscious of its balances position as can be demonstrated by budget reports over many years. Fortunately for the Authority the question had not been whether it had a sufficient level of balance but rather that it had too much. Balances increased by £270,000 in 2010/11 to leave a balance of £8.6m at 31 March 2011.

36. A number of policies have been determined previously to bring about reductions and the current policy reflects that deficit budgets are necessary to support the structured reduction in spending. The current policy allows for balances to fall to no lower than 25% of Net Budget Requirement (NBR). This is slightly different from the NOE stated above, the average NBR figure for the next four years is expected to be £14.8m therefore 25% of that figure equates to £3.7m. The current four-year forecast shows balances still at £7.5m at the end of 2015/16.

37. The risk assessment undertaken above suggests that 20-25% of NBR is about the range that this authority should be maintaining its balances within. By 31 March 2016 balances will represent 50% of NBR, which is perfectly adequate. However, Members are aware that this situation can only be achieved with CSB savings and have stated a clear target of reducing expenditure throughout the period of the medium term financial strategy.

38. It has already been stated that the capital fund is expected to remain in a surplus position beyond 2015/16 and the capital programme is fully funded.

40. The Council has a few earmarked reserves (e.g. DDF), which are intended to be used for specific purposes over a period of time of more than a single financial year. These earmarked reserves have been excluded from the assessment for this reason.

41. The HRA revenue balance of £5.9m at 31 March 2011 is expected to decrease, by £941,000 in 2011/12 and then by a further £263,000 in 2012/13. The balance on the Housing Repairs Fund is expected to reduce over the next year, from £4m to £3.5m. Similarly, the Housing Major Repairs Reserve is predicted to decrease from £6.6m to £5.9m. The 30 year business plan has demonstrated that under self-financing the overall financial standing of the HRA will improve significantly and its reserves going into 2012/13 remain healthy.

42. The conclusion is that the reserves of the Council are adequate to cope with the financial risks the Council faces in 2012/13 but that savings will be needed in subsequent years to bring the budget back into balance in the medium term.

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