Supplementary Committee Agenda

Epping Forest District Council

Finance and Performance Management Cabinet Committee Thursday, 20th September, 2012

Place:	Committee Room 1 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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5. KEY PERFORMANCE INDICATORS 2012/13 - QUARTER 1 PERFORMANCE MONITORING, TARGETS AND METHODOLOGY (Pages 81 - 92)

(Deputy Chief Executive) To consider the attached report (FPM-007-2012/13).

9. ANNUAL GOVERNANCE REPORT (Pages 93 - 110)

(External Auditors) To consider the attached report (FPM-011-2012/13).

N.B. ISA260 from the External Auditors attached.

10. BUDGET 2013/14 - FINANCIAL ISSUES PAPER (Pages 111 - 126)

(Director of Finance & ICT) To consider the attached report (FPM-012-2012/13).

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Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report Reference: FPM-007-2012/13
Date of Meeting: 20 September 2012

Portfolio: Finance and ICT.

Subject: Key Performance Indicators 2012/13 - Quarter 1 Performance Monitoring, Targets and Methodology.

Responsible Officer: Steve Tautz (01992 564180)

Democratic Services: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) That outturn performance in respect of the first quarter of 2012/13, in relation to the Key Performance Indicators adopted for the year, be noted;

(2) That, subject to the views of the Finance and Performance Management Scrutiny Panel:

(a) the target for KPI 35 (Benefit Fraud Investigation) for 2012/13, be increased to 300; and

(b) the target for KPI 46 (Affordable Homes) for 2012/13, be increased to 72; and

(3) That, subject to the views of the Finance and Performance Management Scrutiny Panel the methodology for reporting performance against 'KPI 22 – Unacceptable levels of litter' and 'KPI 23 – Unacceptable levels of detritus' be revised as set out in this report.

Executive Summary:

Pursuant to the Local Government Act 1999, 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 services and key objectives are adopted each year. Performance against the majority of KPIs is monitored on a quarterly and cumulative basis, and has previously been an inspection theme in external judgements of the overall performance of the authority.

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.

A number of KPIs are used as performance measures for the Council's key objectives. 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 monitor and review KPI performance and to consider corrective action where necessary, could have negative implications for judgements made about the Council's progress, and might mean that opportunities for improvement are lost. The Council has previously agreed arrangements for monitoring performance against the KPIs.

Report:

Key Performance Indicators 2012/13

1. A range of thirty-two Key Performance Indicators (KPI) for 2012/13 was adopted by the Finance and Performance Management Cabinet Committee in March 2012, and a target was set for at least 70% of the indicators to achieve target performance by the end of the year. Summary details of the KPI for the year are attached as Appendix 1 to this report.

2. The KPI are important to the improvement of the Council's services and the achievement of its key objectives, 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, that are the focus of the key objectives. Progress in respect of the majority of the KPIs is reported to the Finance and Performance Management Scrutiny Panel, Management Board and the relevant Portfolio Holder at the conclusion of each quarter. Performance in relation to the remaining KPIs is subject to scrutiny at year-end only, as little change in performance is likely over quarterly periods, or where performance is designed to be reported on an annual basis. These annually reported indicators are identified in Appendix 1.

3. Improvement plans are produced for each KPI every year, 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 KPI, the improvement plans are considered and agreed by Management Board in the first instance, and are subject to ongoing review between the relevant service director and Portfolio Holder over the course of the year. Copies of the improvement plans for each KPI for 2012/13 have recently been circulated to all members of the Finance and Performance Management Scrutiny Panel and Portfolio Holders for information

Key Performance Indicators 2012/13 – Quarter 1 Performance

4. Performance reports for each of the (27) quarterly monitored KPI for the period from 1 April to 30 June 2012 were presented in detail to the Finance and Performance Management Scrutiny Panel at its meeting on 18 September. The three-month position with regard to the achievement of target performance for the KPI for 2011/12 was as follows:

(a) 21 (77.77%) achieved the first quarter performance target; and

(b) 6 (22.22%) did not achieve the first quarter performance target.

Key Performance Indicators 2012/13 - Targets

5. Targets for each KPI for 2012/13 were considered by the Finance and Performance Management Scrutiny Panel and agreed by the Finance and Performance Management Cabinet Committee in March 2012. However, issues related to specific KPI targets now require further consideration, and these are highlighted in the following paragraphs of this report.

- KPI 35 - Benefit Fraud Investigation

6. The target for this KPI for 2012/13, which measures the number of benefit fraud investigations completed, was set on the basis of there being two vacant posts and an officer on maternity leave within the Benefit Fraud Team, leaving only one Investigation Officer likely to be in place for the majority of the year.

7. The current establishment of the Benefit Fraud Team has increased during the first quarter of the year, and it is therefore proposed that the target for the KPI be increased from 150 investigations in the year, to 300.

- KPI 46 – Affordable Housing

8. The target for this indicator (34) was based on the number of affordable homes already on site that were expected to be completed during 2012/13. The target was set at the end of Quarter 3 of 2011/12, before the end of year out-turn for the KPI was known.

10. There has been some slippage of affordable housing completions by housing associations originally expected in the last quarter of 2011/12, into the current year. In view of this slippage, and to ensure that the target for 2012/13 is meaningful, it is suggested that the full-year target for KPI 48 be increased to 72 new affordable homes, to reflect the effects of the slippage.

11. The revised target for the year has been profiled in line with expected affordable housing completions throughout each quarter of the year and, on this basis, the first quarter target is 38 new affordable homes, which the Cabinet Committee will note has been met.

Key Performance Indicators 2012/13 – Methodology

KPIs 22 & 23 – Unacceptable levels of litter and detritus

12. 'KPI 22 - What percentage of our district had unacceptable levels of litter?' and 'KPI 23 What percentage of our district had unacceptable levels of detritus?' remain somewhat at odds with the rest of the suite of KPIs in that they are the only quarterly indicators not currently reported as cumulative performances throughout the year.

13. The main reason for this has been our reliance upon use of the Keep Britain Tidy reporting tool and spreadsheet which analyses a snapshot of the district based on the survey of a minimum number of 'transects' (parts of the district) each quarter.

14. Through the replication and adaptation of this tool internally, we are now able to continue to observe all of the original requirements of the Keep Britain Tidy tool but additionally report a cumulative position at any given point in the year.

15. It is proposed that with effect from 2012/13 these KPIs be brought in line with all other KPIs and the cumulative position be reported each quarter. This will not affect the reporting of Q1 performance but will take effect from the reporting of Q2 performance at the November meeting of the Finance and Performance Management Scrutiny Panel.

16. Adoption of a cumulative reporting position will help to minimise the disproportionate effects that may be caused by a particularly bad quarter. These anomalies may be due to

bad weather, harvest time or other similar circumstances, but taking a cumulative position, combined with the continued spread of the transects surveyed across all types of highway within the district will help to ensure the figure we report is a reliable reflection of the district and will remove the indicator's annual performance being entirely reliant upon performance in Q4.

17. The revised definitions for these indicators, reflecting the intention to report cumulatively, are attached as Appendix 2 of this report.

18. It is not proposed to back-date this change in definition to revise previous outturns for the KPI. However, given the above, and to ensure that the indicator is more reflective of a full year's efforts and performance, the Cabinet Committee is requested to agree the changes detailed above in order that the new KPI definition be adopted for the current year. These matters were also considered by the Finance and Performance Management Scrutiny Panel at its meeting on 18 September 2012, and the views of the Scrutiny Panel will be reported to the Committee

Resource Implications:

The respective Service Director will identify the resource requirements for any proposals for corrective action in respect of areas of current KPI under-performance set out in this report.

Legal and Governance Implications:

There are no legal implications or Human Rights Act issues arising from the recommendations in this report, which ensure that the Council monitors progress against its aim of achieving target performance and improvement against 70% of its KPI for 2012/13, and that proposals for corrective action are considered in respect of areas of current under-performance.

Safer, Cleaner and Greener Implications:

The respective Service Director will have identified any implications arising from proposals for corrective action in respect of areas of current KPI under-performance set out in this report, in respect of the Council's commitment to the Climate Local Agreement, the corporate Safer, Cleaner and Greener initiative, or any Crime and Disorder issues within the district.

Consultation Undertaken:

The targets and performance information set out in this report have been submitted by each appropriate Service Director, and have been reviewed and considered by Management Board and the Finance and Performance Management Scrutiny Panel. The individual KPI improvement plans for 2012/13 have also been considered and agreed by Management Board, and provided to members of the Scrutiny Panel and Portfolio Holders.

Background Papers:

First quarter KPI submissions held by the Performance Improvement Unit.
KPI calculations and supporting documentation held by respective service directorates.

Impact Assessments:

Risk Management
The respective Service Director will have identified any risk management issues arising from proposals for corrective action in respect of KPI areas of current KPI under-performance set out in this report

<u>Equality and Diversity</u>

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?

No. However, the respective Service Director will have identified any equality issues arising from proposals for corrective action in respect of areas of current KPI under-performance set out in this report

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?

N/A

What equality implications were identified through the Equality Impact Assessment process?

N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A

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Appendix 1: 2012/13 Key Performance Indicators - Reference Chart

Directorate	2012/13 KPI Ref. No.	Description	Reporting Frequency
DCE	**KPI 04**	The level of user satisfaction with the Council's website	Annual
Corporate Support Services	**KPI 10**	Working days lost due to sickness absence	Quarterly
	KPI 11	Rent Arrears (Commercial and Industrial Property)	Annual
	KPI 12	Occupation Rate (Commercial and Industrial Property)	Annual
Environment & Street Scene	**KPI 20**	Residual household waste per household	Quarterly
	KPI 21	Household waste sent for reuse, recycling and composting	Quarterly
	KPI 22	Improved street and environmental cleanliness (litter)	Quarterly
	KPI 23	Improved street and environmental cleanliness (detritus)	Quarterly
	KPI 24	Improved street and environmental cleanliness (fly-tipping)	Quarterly
	KPI 25	Environment and Neighbourhoods Team service standards	Quarterly
Finance & ICT	**KPI 30**	Invoices paid within 30 days of receipt	Quarterly
	KPI 31	Level of Council Tax collection	Quarterly
	KPI 32	Level of National Non-Domestic Rates (NNDR) Collection	Quarterly
	KPI 33	Processing of new benefit claims	Quarterly
	KPI 34	Processing notification of changes of circumstance for benefit claims	Quarterly
	KPI 35	The number of competed fraud investigations	Quarterly
Housing	**KPI 40**	Rent collected as a proportion of rents owed on housing revenue account dwellings	Annual
	KPI 41	Average number of days to re-let council dwellings	Quarterly
	KPI 42	Emergency repairs undertaken within target time	Quarterly
	KPI 43	Urgent repairs undertaken within target time	Quarterly
	KPI 44	Routine repairs undertaken within target time	Quarterly
	KPI 45	Satisfaction with repairs	Quarterly
	KPI 46	Affordable homes delivered (gross)	Quarterly
	KPI 47	Households living in temporary accommodation	Quarterly
	KPI 48	Level of non-decent council homes	Quarterly
Planning & Economic Development	**KPI 50**	Additional homes provided (net)	Quarterly
	KPI 51	Processing of major planning applications within target time (13 weeks)	Quarterly
	KPI 52	Processing of minor planning applications within target time - Delegated decisions only (8 weeks)	Quarterly
	KPI 53	Processing of other planning applications within target time - Delegated decisions only (8 weeks)	Quarterly
	KPI 54	Planning Appeals - Officer Recommendation	Quarterly
	KPI 55	Planning Appeals - Member Reversal of Officer Recommendation	Quarterly
	KPI 56	Supply of ready to develop housing sites	Annual

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Key Performance Indicator Definition

<table>
<tr><td>Reference

Title</td><td colspan="3">KPI 22 (formerly NI 195(a))

What percentage of our district had unacceptable levels of litter?</td></tr>
<tr><td>Collection Interval</td><td>Quarterly</td><td>Data Source</td><td>DEFRA / CAMS Spreadsheet</td></tr>
<tr><td>Definition</td><td colspan="3">This indicator was previously collected as BVPI 199 and NI 195 and had remained unchanged. It is now intended to report performance as a cumulative result at the end of each quarter.

A definition of each of the elements is provided below:

Litter

There is no statutory definition of litter. The Environmental Protection Act 1990 (s.87) states that litter is ‘anything that is dropped, thrown, left or deposited that causes defacement, in a public place’. This accords with the popular interpretation that ‘litter is waste in the wrong place’.

However, local authority cleansing officers and their contractors have developed a common understanding of the term and the definition used for NI 195 (and for the LEQSE) was based on this industry norm.

Litter includes mainly synthetic materials, often associated with smoking, eating and drinking, that are improperly discarded and left by members of the public; or are spilt during waste management operations.

Grade A is given where there is no litter or refuse; grade B is given where a transect is predominantly free of litter and refuse except for some small items; grade C is given where there is a widespread distribution of litter and refuse, with minor accumulations; and grade D where a transect is heavily littered, with significant accumulations.

Three Intermediate Grades will also be used. These are:
B +, between Grade A and Grade B;
B – , between Grade B and Grade C; and
C –, between Grade C and Grade D</td></tr>
</table>

Formula	Once all sites have been surveyed, the formula to be used for litter is: $$\left(\frac{T+\left(\frac{Tb}{2}\right)}{Ts}\right)*100$$ where: T = number of sites graded C, C –, or D for litter; Tb = number of sites graded at B- for litter (this grade counts as half); Ts = total number of sites surveyed for litter (900 minimum)		
Good performance	Low	**Return Format**	Percentage
Cumulative	Yes	**Decimal Places**	Zero
Worked example	For example, where 30 sites have been graded either C, C –, or D and 90 sites have been graded B-, from a survey of 900 sites in total the calculation would give: [(30 + (90/2))/900] * 100 [(30+45)/900] * 100 [75/900] * 100 = 0.8333 * 100 = 8.3% = 8% reported performance		

Key Performance Indicator Definition

Reference **Title**	KPI 23 (formerly NI 195(b)) What percentage of our district had unacceptable levels of detritus (dust, mud, stones, rotted leaves, glass, plastic etc.)?		
Collection Interval	Quarterly	**Data Source**	DEFRA / CAMS Spreadsheet
Definition	This indicator was previously collected as BVPI 199 and NI 195 and had remained unchanged. It is now intended to report performance as a cumulative result at the end of each quarter. A definition of each of the elements is provided below: **Detritus** There is no statutory definition of detritus, however, local authority cleansing officers and their contractors have developed a common understanding of the term and the definition used for the NI 195 (and for the LEQSE) was based on this industry norm. Detritus comprises dust, mud, soil, grit, gravel, stones, rotted leaf and vegetable residues, and fragments of twigs, glass, plastic and other finely divided materials. Detritus includes leaf and blossom falls when they have substantially lost their structure and have become mushy or fragmented. Grade A is given where there is no detritus present on a transect; grade B is given where a transect is predominantly free of detritus except for some light scattering; grade C is given where there is a widespread distribution of detritus with minor accumulations; and grade D where a transect is extensively covered with detritus with significant accumulations. Three Intermediate Grades will also be used. These are: B +, between Grade A and Grade B; B – , between Grade B and Grade C; and C –, between Grade C and Grade D		

Formula	Once all sites have been surveyed, the formula to be used for detritus is: $$\left(\frac{T+\left(\frac{Tb}{2}\right)}{Ts}\right)*100$$ where: T = number of sites graded C, C –, or D for detritus; Tb = number of sites graded at B- for detritus (this grade counts as half); Ts = total number of sites surveyed for detritus (900 minimum)		
Good performance	Low	**Return Format**	Percentage
Cumulative	Yes	**Decimal Places**	Zero
Worked example	For example, where 30 sites have been graded either C, C –, or D and 90 sites have been graded B-, from a survey of 900 sites in total the calculation would give: [(30 + (90/2))/900] * 100 [(30+45)/900] * 100 [75/900] * 100 = 0.8333 * 100 = 8.3% = 8% reported performance		

PKF

Accountants &
business advisers

Epping Forest District Council

Annual Governance Report

2011/12

September 2012

DRAFT

Contents

Appendices

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

Code of Audit Practice

Statement of Responsibilities

1 Executive summary

1.1 The purpose of this report is to communicate to you the significant findings from the audit of Epping Forest District Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources. A summary is set out below:

Area of audit	Findings and conclusion
Financial statements	
Financial statements	No material misstatements were identified as a result of our audit work. Some uncorrected non-trivial but not material errors have been identified and these are detailed in Appendix B. **Some areas of work are still outstanding at the time of drafting this report**. Should these result in any significant issues, we will give an oral update to the Audit and Governance Committee. Subject to satisfactory completion of the outstanding work, we anticipate issuing an **unqualified** true and fair opinion on the financial statements for the year ending 31 March 2012. The detailed findings from our work are set out in section 3.
Annual Governance Statement	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.
Whole of government accounts	Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and an oral update will be given at the Audit and Governance Committee on 24 September.
Internal controls	One significant deficiency was identified in relation to checks being undertaken on Housing and Council Tax Benefit claims. This was reported to the Audit and Governance Committee in our letter dated 2 August 2012 and a recommendation has been made in Appendix A of this report.
Use of resources	
Value for money conclusion	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012. The detailed findings from our work are set out in section 4. We anticipate issuing an **unqualified** value for money conclusion.

Acknowledgement

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

2 Introduction

2.1 International Standards on Auditing (ISAs) (UK and Ireland) and the Code of Audit Practice require that we report to those responsible for financial governance and reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements and our value for money conclusion. This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2012.

2.2 Our report is presented to the Audit Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance* and Management, and the Audit Commission's *Code of Audit Practice*.

2.3 The contents of this report have been discussed and agreed with the Director of Finance and ICT.

Findings

2.4 Recommendations in response to the key findings identified by our audit of the financial statements and use of resources work are provided in the action plan at Appendix A. We have also included in Appendix A recommendations in respect of significant control deficiencies reported separately to you in our Letter dated 2 August 2012. These recommendations have been discussed with appropriate officers and their responses are included. Additionally we have reported orally to management other non-significant findings from our audit.

2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have only restated weaknesses already reported by Internal Audit where we consider these to be significant.

Independence

2.6 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

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

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

3.3 We consider misstatements of less than £33,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud, and have not reported them. This is unchanged from the triviality level that was reported in our Audit Plan.

Reporting to those charged with governance

3.4 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which we believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

3.5 We reported our risk assessment in the 2011/12 Audit Plan issued in January 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and we reported our updated risk assessment to you in our Letter dated 2 August 2012.

3.6 Our audit approach was designed to address these significant risks and any relevant issues arising have been set out in the remainder of this report.

Accounting practices

Financial statements preparation

3.7 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 29 June 2012.

3.8 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with electronic files of the majority of the requested working papers, with the exception of those relating to the Collection Fund, on 9 July 2012, in line with the agreed timetable.

Accounting policies

3.9 The following changes have been introduced by the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code'), resulting in changes in accounting practice:

- The adoption of FRS30 *Heritage Assets,* requiring that heritage assets are carried at valuation, with comprehensive disclosure note requirements
- Amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities to clarify the nature of those related party relationships and simplify the information disclosed.
- New disclosure requirements for exit packages to disclose the number and cost of exit packages agreed in the year
- The introduction of disclosure requirements in relation to the nature and amount of trust funds (a previous Statement of Recommended Practice requirement that has been reinstated).

3.10 The Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required.

Accounting estimates

Estimation of Useful Economic Lives of HRA properties

3.11 Upon receipt of the draft financial statements we identified an unexpected difference between the figure for depreciation in the financial statements and the figure we were expecting from our analytical review work. This was reported as a significant audit risk in our updated risk assessment in our Letter dated 2 August 2012.

3.12 During the audit the reasons for the unexpected variance were investigated and were found to be due to a change in the useful economic lives of Housing Revenue Account (HRA) properties.

3.13 The Council had previously calculated their remaining useful economic lives on a sample basis because there was not a detailed list of the Council's repairs and renewals programme on a component by component basis (a component being an individual part of a property with a different useful life to the whole property). During the year, a detailed breakdown was produced and the Council therefore used this analysis to determine a more accurate average remaining useful economic life for each component, which was used to calculate depreciation.

3.14 The Council's new methodology is reasonable and, overall, it provides an enhanced, refined set of data upon which to base its estimation of depreciation. However, sample testing of the data that supports the depreciation charge still needs to be completed.

3.15 Furthermore, this represents a change in accounting estimate and the financial statements have been amended to disclose the impact of this change on the depreciation charge to the reader. Also, the Council has changed its replacement cycle as at 1 April 2012 because the move to self-financing of the HRA has given the Council more financial freedom to maintain properties to a higher standard and replace components on a more frequent basis. This will result in a significant decrease in the average remaining useful economic lives next year, which will significantly increase the annual depreciation charge, and the Council has made a disclosure to this effect within their financial statements.

Disclosures

3.16 We identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. We have agreed that these matters will be amended in the financial statements, none of which impact on the reported financial outturn in the Consolidated Income and Expenditure Statement, and include:

- The vacant possession value disclosed in Note 3 to the HRA did not reflect the disposals and adjustments made during 2011/12 and, therefore, required updating to show the correct figure as at 31 March 2012.
- The revaluations note (Note 12) incorrectly disclosed the revalued amount for Council Dwellings and Garages within the 31 March 2011 line in this note. The financial statements should be updated to include this revaluation within the 31 March 2012 line.
- The formulas used in the Council's calculations of the total future minimum payments within the leases note (Note 36) were incorrect. The financial statements should therefore be updated to reflect the correct values.
- Responsibility for concessionary fares transferred to Essex County Council during 2011/12. The income and expenditure in relation to this should be shown as a separate line from Highways and Transport for both the current and prior year so that the reader of the financial statements can better understand the consistent year on year costs.
- Four related parties were identified from our testing where the transactions that the Council had with them in the year had not been disclosed in the financial statements (Note 34).
- £106,811 had been included within accruals in the creditors note (Note 21), however testing identified that these related to amounts where cheques had been written back and therefore did not relate to accrued amounts, but should have been classified as Sundry Creditors.
- The financial instruments note (Note 17) had not been prepared in accordance with the Code and included amounts such as deferred income, where there is not a right to receive cash, and therefore does not meet the definition of a financial instrument.

Uncorrected misstatements

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

- **New Homes Bonus**: The Council received a payment of grant for the new homes bonus of £58,000 in March 2012 that was described as 'The new homes bonus scheme grant determination 2012-13'. The Council did not account for this as income in the year. However, the Code requires that where a grant is received, and there are no conditions attached to the grant, the amount should be recognised as income immediately.
- **Revaluation of Housing Stock**: The value of one property had been removed from the valuation provided by the Valuer because the Council believed that it was incorrectly included in the valuation when it had previously been disposed. However, our testing identified that it had not been included in the valuation and therefore this property had been incorrectly removed, resulting in an £85,000 understatement of the Council's housing stock in the Balance Sheet.

- **Bad Debt Provision:** The Council incorrectly included write offs processed during the year within the calculation of the year end provision, resulting in an overstatement of the bad debt provision of £58,000 and an understatement of the debtors balance by the same amount within the Balance Sheet.

- **Rental Income:** Our income testing identified approximately £35,000 in relation to rental income that was raised after the year end, but related to 2011/12 and therefore should have been included within the financial statements.

- **HRA income:** Our testing identified that income of £104,844 was not being recognised as income in the HRA Income and Expenditure Statement but was instead being netted down within the Repairs and Maintenance expenditure line. Income and expenditure should be accounted for gross and are, therefore, both understated.

3.18 We have requested that these misstatements be corrected and seek written representation from those charged with governance that they acknowledge these misstatements and that they are satisfied with management's reasoning for not correcting the financial statements.

3.19 The draft letter of representation is set out in Appendix C.

Misstatements corrected by management

3.20 In addition to the matters raised in paragraph 3.16 and 3.17 we identified the following notable departures from the technical guidance in the Code of Practice. The Council have agreed to amend the financial statements for these departures, which include:

- Deferred revenue income

- Collection Fund distribution of the deficit brought forward.

Deferred revenue income

3.21 The Council had entered into a number of agreements over the years with developers under which the developer has paid a one-off lump sum to the Council (described as a "commuted sum") and in return the Council has agreed to maintain (cut grass etc.) certain common land in developments. £498,000 had been included within long term liabilities in the current year as deferred revenue income in respect of these lump sums received.

3.22 There are no conditions attached to this money received by the Council and, therefore, in accordance with the Code, the amount should be recognised immediately as income. Although the amount is not material the Council has chosen to restate their financial statements back to 1 April 2010 and have set up an earmarked reserve to release the income to the general fund over time.

Collection Fund distribution of the deficit brought forward

3.23 The Council have been incorrectly including only the Council's share of the collection fund deficit within the Collection Fund Income and Expenditure Account. In accordance with the Code, the Council should have been recording the full deficit arising on the Collection Fund as a whole and have, therefore, been understating the deficit and the Collection Fund Adjustment Account. The prior year amount has been restated by £530,000 to show a total deficit of £615,000 and the current year has been restated by £620,000 to show a deficit of £720,000.

Other matters

3.24 We are required to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- Significant deficiencies in internal control identified during the audit

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.)
- Other audit matters of governance interest.

3.25 We reported one significant deficiency in internal control within the Housing and Council Tax Benefits system, and the impact of this deficiency, to you in our Letter dated 2 August 2012.

3.26 The work on the Whole of Government Accounts Return is still on-going and an oral update will be provided at the Audit and Governance Committee.

3.27 There are no others matters which we wish to draw to your attention and we can confirm that we are satisfied that the draft Annual Governance Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council

Written representations

3.28 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as Appendix C.

3.29 We do not anticipate any changes being required before providing our opinion on the financial statements.

Audit report

3.30 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:

- Clearance of review points
- Completion of sample testing of the data that supports the depreciation calculation
- Completion of testing on the Whole of Government Accounts

3.31 We will provide an oral update on these outstanding issues at the Audit and Governance Committee.

4 Use of resources

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

4.2 In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2011/12 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

4.3 Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

4.4 As well as achieving savings of £1.74m the Council increased its General Fund Balance by £631,000 which was £562,000 above its forecast outturn position. Earmarked general fund reserves were also increased by £325,000. The Housing Revenue Account realised an overall decrease in its balance of £1.39m which is £400,000 worse than the Council's revised budget estimate. This was largely due to £650,000 being appropriated to the Insurance Fund in recognition of the potential liabilities faced by the Council relating to asbestos claims. Despite this decrease the Housing Revenue Account reserve remains at £4.5m, which is considered reasonable.

4.5 During the year, the Council borrowed £185.5m to finance the payment to the Department of Communities and Local Government to release the Council from the Housing Revenue Account subsidy arrangement, in line with recent reforms. The borrowing is supported by a 30 year Business Plan to demonstrate the affordability of the debt.

4.6 The Council has a good track record of achieving its budgets and successful financial management arrangements putting it in a relatively strong position, compared to similar councils, of having built up good levels of funds and reserves to support it in its response to the continued financial pressures faced. From review of current documentation, the Council is on track to deliver its 2012/13 budget and although its medium term financial plan forecasts that it will be necessary to utilise reserves during 2013-2017 it is estimated that reserves at the end of this period will still be in the region of £7.7m. This is more than twice the minimum level of reserves necessary to comply with its own financial management policies.

Challenging economy, efficiency and effectiveness

4.1 The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2011/12. The arrangements operated during the year remain adequate. Business Plans continue to outline annual VFM considerations and implications for each service and include benchmarking comparisons where appropriate. Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators.

4.2 The implementation of the VFM Strategy action plan and the Data Quality Strategy action plan has been monitored and the VFM Strategy has been formally reviewed for continued relevance. Some of the previously implemented proactive VFM actions have remained on hold but there have been specific targeted pieces of work that demonstrate a continued awareness of the need to seek value for money improvements. These include completion of specific externally contracted consultancy reviews with a VFM aspect that were funded by Improvement East's Efficiency Challenge monies. The result of these studies will be used to target specific areas for more detailed challenge where necessary and include:

- Review of the Grounds Maintenance service and contract
- A revenue income optimisation study
- An organisational structure review.

4.3 The Council has completed a review of its position compared to its nearest neighbours, using the Audit Commission Value for Money Profile Tool. The analysed results of this review were reported to the Finance and Performance Management Cabinet Committee in June 2012 and decisions on which areas require further in-depth review will be made by the Finance and Performance Scrutiny Panel in September 2012. We expect that any in-depth studies completed in 2012/13 to challenge value for money will be driven by the outcomes from the various internal and external reviews undertaken in the pursuit of improved value for money outcomes.

4.4 During 2011/12 a number of efficiency savings have been achieved through partnership working arrangements, including joint procurement.

Audit report (value for money conclusion)

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

4.6 We anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2012.

Appendix A: Action Plan

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Financial statements				
The Council has not implemented its property management system in the financial year which has meant that an asset by asset split of the 2011/12 valuations could not be provided in respect of housing stock. This could lead to the Council not accounting for their revaluations correctly going forward.	1. Implement a property management system that can record the housing stock on an asset by asset basis so that the revaluation reserve can be maintained in line with the requirements of the Code and is correctly calculated on a component by component basis.			
In line with previous Code requirements the Council currently revalue their assets as at 1 April. Assets then need to be critically reviewed as at 31 March to ensure their carrying values are materially accurate at the Balance Sheet date. The Code requirement to value assets as at 1 April has been removed from the 2011/12 Code and consequently we consider that performing the revaluation of the Council's assets as at 31 March each year would improve the accuracy of their stated values.	2. Instruct the Valuer to undertake revaluations as at 31 March.			
Three unsigned employment contracts, from a sample of ten, were identified as part of our testing. There is a risk that contracts are not enforceable if signed copies are not retained.	3. Human Resources should obtain and retain signed employment contracts for all new starters.			

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Four members declared related parties on their declaration form but the Council did not identify that there were transactions with these parties during the year and therefore did not disclose the transactions with these parties in the financial statements. There is a risk that related parties are not identified.	4. Review all declaration forms and, for any related parties disclosed, interrogate the general ledger to determine whether there are related party transactions to disclose.			
Internal controls				
Two of the three senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims throughout the year, as documented as a control over accuracy of payments within the Council's system notes for benefits.	5. Remind the senior benefit staff of the on-going requirement for them to perform the 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims.			

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Factual misstatements					
Being a grant for £58,000 in relation to the New Homes Bonus that was received in advance in March 2012, with no conditions in place. This should therefore be recognised as income in 2011/12.	(58)		58		
Being the understatement of the valuation of the council dwellings and land due to a property being removed incorrectly.	(85)		85		
Being the overstatement of the bad debt provision due to write offs being incorrectly included.	(58)		58		
Being the understatement of income due to four invoices in relation to rental income not been accrued for during 2011/12.	(35)		35		
Being the understatement of both income and expenditure due to netting off of income against the repairs and maintenance expenditure.	(105)	105			
Judgemental misstatements					
None.					
Projected misstatements (extrapolation of errors)					
Being the projected misstatement arising from incorrect treatment of accruals.		(44)		44	
Total net misstatements	(341)	61	236	44	
- Net understatement of income	(280)				
- Net understatement of net assets			280		

Appendix C: Draft letter of representation

Representations for the preparation of the Statement of Accounts (as set out below), which includes the financial statements, will be sought from the Director of Finance and ICT (as the Responsible Financial Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

26 September 2012

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2012

This representation letter is provided in connection with your audit of the financial statements of Epping Forest District Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

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

FINANCIAL STATEMENTS

Responsibility for the financial statements

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

Accounting policies

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

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable and appropriate:

Pension fund assumptions

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

• Rate of inflation (RPI)	3.3%
• Rate of inflation (CPI)	2.5%
• Rate of increase in salaries	4.3%
• Rate of increase in pensions	2.5%
• Rate for discounting scheme liabilities	4.6%
• Take up option to convert the annual pension into retirement grant	50.0%

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

Fair value measurements and disclosures

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

Valuation of housing stock

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

Plans or intentions

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

Litigation and claims

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

Related parties

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

Subsequent events

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

Uncorrected misstatements

I believe that the uncorrected misstatements identified during the audit are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

Going concern

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

Comparative information

We confirm that, in respect of the restatement to implement the Heritage Assets accounting policy changes the adjustments relate to a change in accounting policy as we believe that the new accounting policy is more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policy.

INFORMATION PROVIDED

Completeness of information

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

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

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

Internal control

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

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

Fraud

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

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations, whose effects should be considered when preparing the financial statements.

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

Related parties

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

Liabilities, contingent liabilities or guarantees

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

Title to assets

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

Yours faithfully

Robert Palmer

Director of Finance and ICT

Representations of the Council

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

Responsibility for the financial statements

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

Uncorrected misstatements

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

Annual Governance Statement

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

Yours faithfully

Councillor A Watts
Audit and Governance Committee Chair

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report Reference: FPM-012-2012/13
Date of meeting: 20 September 2012

Portfolio: **Finance and Technology.**

Subject: **Financial Issues Paper.**

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

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

Recommendations/Decisions Required:

(1) To recommend to the Cabinet the establishment of a new budgetary framework including the setting of budget guidelines for 2013/14 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 2016/17, and the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.

Executive Summary:

This report provides a framework for the Budget 2013/14 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

- Local Government Resource Review
- Business Rates Retention
- Welfare Reform
- New Homes Bonus
- Double-Dip Recession
- Development Opportunities
- Community Budgets
- 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 2013/14.

Reasons for Proposed Decision:

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 2011/12

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2011/12 is being presented to Council on 27 September, but the audit has not amended any of the outturn figures. In summary the General Fund Revenue outturn for 2011/12 shows that Continuing Services Budget (CSB) expenditure was £601,000 lower than the original estimate and £562,000 lower than the revised. The main variance, as in 2010/11, related to staff savings from vacancies.

2. The revised CSB estimate for 2011/12 reduced from £15.682m to £15.643m with the actual being £15.081m. The largest variance on growth and savings items was on the Police Community Support Officers as the termination of the Council's contribution was negotiated earlier than had been anticipated, saving £63,000 more than had been estimated. This led to the total in year saving being £111,000 higher than anticipated at £1.861m. A significant variance was also seen on the opening CSB figure, which is consistent with the main variance arising from salary savings.

3. Net District Development Fund (DDF) expenditure was £538,000 lower than the revised estimate. However £446,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2012/13, giving a net saving of £92,000. Three directorates had variances between their revised and actual DDF spending of more than £100,000. The largest variance was £256,000 on Corporate Support Services, where underspends included £100,000 on the changes to Land Search income and £73,000 for Planned Building Maintenance, the funding for these projects has been carried forward. Finance and ICT had an underspend of £141,000, with the largest item being £72,000 in respect of changes to concessionary travel, only £10,000 has been carried forward for this item. Planning and Economic Development had an underspend of £101,000, arising largely from the Local Plan and all £93,000 of the underspend for this scheme has been carried forward.

4. The non-portfolio items include the latest part of the "Fleming Claim" for the repayment of VAT of £253,000. This reclaim related to over declared VAT on trade waste collections in the period 1973 to 1996. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £3.457m at 31 March 2012. However, the vast majority of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend of £601,000 and the variance on Government Grants of £201,000, compared to the original estimate. This translates into an increase in balances of £631,000 compared to

the original estimate of a reduction of £171,000.

The Updated Medium Term Financial Strategy

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2011/12 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will increase by £112,000 in 2012/13 before reducing in subsequent years by £291,000 in 2013/14, £521,000 in 2014/15 and £481,000 in 2015/16 before reducing by £281,000 in 2016/17.

7. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2013 of £9.313m represents over 63% of the anticipated NBR for next year (£14.615m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2017 the revenue balance will have reduced to £7.739m. This still represents 54% of the NBR for 2016/17 (£14.301m).

8. The financial position as at 1 April 2012 was better than had been anticipated, reflecting the success of the cost control measures put in place. Further work was done on the 2011/12 revised estimates to identify and reduce budgets with a history of underspending. However the outturn has shown that there are still some areas where further reductions are achievable.

9. The target saving for 2013/14 has been reduced down from the original level of £450,000 to £250,000. This is followed by targets of £400,000 for 2014/15 and 2015/16 which then reduces to £200,000 for 2016/17. These net savings could arise either from reductions in expenditure or increases in income. Progress has already been made on the identification of savings, with some of the individual items being covered in reports to Cabinet. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £1.091m of DDF funds available at 1 April 2017. The four-year forecast approved by Council on 14 February 2012 predicted a DDF balance of £1.309m at the end of 2015/16.

11. Capital balances have been updated for recent outturn figures. The ongoing low level of capital receipts means that the predicted balance at 1 April 2017 falls to £7.894m. Over this four-year period the capital programme has approximately £67m of spending, inclusive of the HRA. Previously the need to use capital balances for revenue generating assets has been highlighted and this has been included in the Capital Strategy.

Continuing Services Budget

12. The CSB saving against revised estimate was £0.562m, compared to £0.579m in 2010/11. The prime cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £18.847m compared against an estimate of £19.796m. There is currently an under spend on the salaries budget in 2012/13 and this is expected to continue, although at a reduced level as a significant part of the previous underspends has come from the vacant Chief Executive's post.

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

14. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG +

Distributable 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 limited 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 2012/13. Previously Members had a policy under which increases in council tax had been linked with increases in the rate of inflation. For information, RPI is currently 3.2% and CPI 2.6% (July 2012 figures, released in mid August) and inflation forecasts retain an important role in estimating future costs. However, in these ongoing difficult economic times Members have indicated a desire to limit the burden on hard pressed tax payers and so only a 1% increase has been allowed for in 2013/14.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2012/13 achieved that objective, as funding from Government Grants and Local Taxpayers was £13,000 above CSB. The revised estimate for this year shows a net reduction of approximately £100,000 in CSB at this time although that is likely to change as we go through the budget process.

Local Government Resource Review

16. The current consultation on Business Rates Retention is a separate item earlier on the agenda and the main issues arising from it are discussed below. However, before doing that it is worth mentioning the Local Government Resource Review and looking back at the Comprehensive Spending Review (CSR). The CSR only provided us with two years figures instead of the usual four because of the Government's desire to "radically change" the system of funding local authorities. The table below shows what we thought at one time would be the final figures from the Formula Grant system.

	2008/09 £m	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**
Relative Needs Amount	5.455	5.457	5.464	4.302	3.901
Relative Resource Amount	-5.228	-5.096	-4.956	-2.842	-2.810
Central Allocation	8.793	8.834	8.871	6.223	5.611
Floor Damping	0.302	0.173	0.036	-0.296	-0.249
Council Tax Freeze Grant	-	-	-	0.203	0.203
Formula Grant	**9.322**	**9.368**	**9.415**	**7.590**	**6.656**

17. The figures shown above represented a poor CSR for the Council with grant reductions of 12.9% (against the adjusted 2010/11 figures) for 2011/12 and a further 11.8% (against the adjusted 2011/12 figures) for 2012/13. The monetary and percentage changes over recent years are shown below.

	2008/09 £m	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**
Formula Grant (adjusted)	9.322	9.368	9.415 (8.710)	7.590 (7.543)	6.656
Increase/(Decrease) £	0.093	0.046	0.047	(1.120)	(0.887)
Increase/(Decrease) %	1.0%	0.5%	0.5%	(12.9%)	(11.8%)

18. In addition to the detailed figures for 2011/12 and 2012/13, headline control totals for local authority funding were given for 2013/14 and 2014/15. These control totals showed further reductions of approximately 1% in 2013/14 and 5% in 2014/15. In constructing the MTFS in February it was felt that greater reductions were likely and so the amounts were increased to 3% for 2013/14 and 7% for 2014/15. When the current consultation was issued it showed reductions of 12% for 2013/14 and 9% for 2014/15. However, there was something of an outcry at this as the Department for Communities and Local Government (DCLG) were proposing to remove from the control totals a full six years worth of New Homes Bonus (NHB)

funding amounting to £2bn. It was proposed that the amount DCLG did not need for NHB would then be re-distributed. There was concern that a large amount of money would disappear as part of this process and that notifications of amounts to be re-distributed would come too late for inclusion in 2013/14 budgets. So instead of taking out too much money and then re-distributing some of it, an alternative proposal has been added to the consultation that the DCLG only top slices what is estimated to be necessary, £500m for 2013/14 and £800m in 2014/15. This alternative proposal produces funding reductions of 4.4% for 2013/14 and 9.6% for 2014/15. To illustrate what these various percentage changes mean the monetary values for funding are given below.

	2013/14 £m	**2014/15 £m**
CSR Reductions 1% and 5%	6.589 (-0.067)	6.260 (-0.329)
MTFS Reductions 3% and 7%	6.456 (-0.200)	6.004 (-0.452)
Consultation Original Reductions 12% and 9%	5.857 (-0.799)	5.330 (-0.527)
Consultation Revised Reductions 4.4% and 9.6%	6.363 (-0.293)	5.752 (-0.611)

19. So if the original consultation proposal was followed the funding reduction would be approximately £600,000 worse than was allowed for in the previous MTFS, although this may be off-set to some degree by the later redistribution. In this context, the revised consultation proposal has to be seen as good news as for 2013/14 it is only £93,000 worse than the previous MTFS. In the absence of any reliable information for 2015/16 and 2016/17 an assumption has been made that further reductions of 3% will apply to both years.

20. Those that have followed the Local Government Resource Review may be asking why is this relevant if formula grant is being replaced with locally retained business rates? Unfortunately the DCLG has decided that instead of a system of full local retention of business rates and an end to Formula Grant there will only be 50% retention of business rates and a much reduced system of Formula Grant. This means central control of funding will remain in place and the four block funding model will not be retired just yet.

Business Rates Retention

21. The current consultation document has already been mentioned, this is a 250 page document (with several supplementary tables and additions) with 84 detailed questions and a response deadline of 24 September. The Government claims the scheme is necessary to provide a financial incentive to local authorities to promote business growth in their areas, as currently any increase in NNDR is paid into the pool with no direct local benefit. By replacing part of Formula Grant with NNDR the Government is claiming to increase the financial independence of local authorities. There is little authorities can do to increase their Formula Grant allocation but in theory they will be able to encourage growth in their rating lists and so increase their funding.

22. To have any chance of understanding how this system will work it is necessary to start with some of the key terms and definitions, these are taken from the consultation paper –

a) Start up funding allocation - A local authority's share of the local government spending control total which will comprise its Revenue Support Grant for the year in question and its baseline funding.

b) Baseline funding level - The amount of a local authority's start up funding allocation which is provided through the local share of the estimated business rates aggregate at the outset of the scheme.

23. Put more simply, the start up funding allocation is the total money an authority has to fund itself, excluding council tax and fees and charges. If the revised consultation figure from the table above is the funding reduction DCLG ultimately settles on that will give a start up funding allocation for 2012/13 of £6.363m.

24. The start up funding allocation will be a combination of Revenue Support Grant and retained business rates, using data from the consultation paper it appears that in aggregate local authorities will get around 44% from retained business rates and 56% from Revenue Support Grant. This will vary between individual authorities depending on the relative sizes of their non-domestic rating lists and their start up funding allocation.

25. The local share of the estimated business rates aggregate will be apportioned between all billing authorities, to produce billing authority business rates baselines. This will be done using proportionate shares, based on contributions to the rating pool over the last five years. Each billing authority business rates baseline will be further split between the billing authority and any relevant major precepting authorities so that each authority has its own business rates baseline.

26. Each authority's business rates baseline will be compared to its baseline funding level to determine tariff and top up amounts. Where an authority's business rates baseline is higher than its baseline funding level it will pay the difference to DCLG as a tariff. Where an authority has a baseline funding level which is greater than its business rates baseline, it will be paid the difference between the two figures as a top-up. Generally, most districts will pay a tariff and most counties will receive a top-up. The amounts set as tariffs and top-ups will be fixed until the system is reset, although they will be increased annually by the September RPI figure. It is worth pointing out here the financial risk that is being placed on local authorities who will have to fund tariff payments which will increase annually by RPI regardless of what the growth or contraction is in the rating list.

27. Having established the starting point it is worth considering what happens subsequently as a result of growth in the non-domestic rating list. Only 50% of business rates are in the system to start with and where there is growth a large proportion of it is removed by DCLG as a levy, on the basis that this is necessary to fund the safety net. The consultation includes the proposal of a "proportional levy ratio". This means that for every 1% increase in the business rates baseline the authority can see no more than a 1% increase in its baseline funding, using this authority's figures as an example –

Assuming growth of £1m in the business rates.

Initial baseline funding level =	£3.133m
Initial business rates baseline =	£13.372m
Amended baseline funding level =	£3.367m (increase of 7.47%)
Amended business rates baseline =	£14.372m (increase of 7.47%)

The Council gets to keep only £234,000 of the £1m growth.

28. Whilst the example for this authority shows 77% of any growth goes to DCLG this is even worse for an authority like Uttlesford which has an even higher business rates baseline and an even lower baseline funding level, this leads to Uttlesford only retaining approximately 10% of any growth. It could be asked how effective an incentive this system is to encourage additional effort on economic development when some authorities will retain 10%, or less, of any growth.

29. The justification for the levy is the need to fund a safety net for authorities who suffer substantial reductions in their rating lists. An exact percentage has not been specified yet that authorities must suffer before the safety net comes into play, but the consultation suggests somewhere between 7.5% and 10%. If a hypothetical authority had a £10m start up funding

allocation and received £4.4m in baseline funding a safety net at 10% would mean it would have to see a reduction of more than £440,000 before receiving any safety net funding. Over time it will be interesting to see how funding collected from the levy and payments made by the safety net balance out. At the moment the scales do not appear evenly balanced and DCLG seem to be ensuring very little financial risk remains with them.

30. One other aspect of the new scheme worth mentioning is the ability to pool with other authorities to share risk and possibly reduce levy payments. Initially DCLG had seemed very keen on pooling as it would simplify the working of the system overall and incentivise joint working between authorities. However, this enthusiasm seems to have reduced as the current consultation contains no incentives to pool and in parallel to the consultation DCLG have set out an unfeasible timetable for authorities to comply with if they want to pool. Given that the mechanisms of the scheme are still subject to consultation it is impossible to calculate for a given authority what the benefits and risks of pooling would be. At the moment it seems that although most Essex authorities are keen on pooling in principle, no hard agreements can be achieved until all of the details are more certain. DCLG have stated that it will be possible for authorities to start or change pools in 2014/15 and those that do not pool for 2013/14 will not be prevented from subsequently doing so.

<u>Welfare Reform</u>

31. There are a number of welfare reforms in progress but the single most significant for district councils is the replacement of Council Tax Benefit with Local Support for Council Tax. A number of detailed reports on this subject have come to this Committee and also to Cabinet so I will only touch on some of the main points in this report. Council Tax Benefit is a national scheme paid for centrally by the Government. From 1 April 2013 councils have to have in place their own local scheme and they will only receive 90% of the current cost of Council Tax Benefit to fund it. This funding is fixed so the financial risk of an increasing caseload lies with district councils. This is a particular problem given that the change from a benefit to a discount is likely to encourage some people to claim who had been put off by the stigma previously and of course any worsening in the state of the economy could also see claimants increase.

32. The saving needed from the current cost of Council Tax Benefit is approximately £1m. To achieve this saving some radical changes are necessary to the current scheme and full support for council tax bills will no longer be possible. This will mean people who have never had to pay council tax before will now be faced with a bill of approximately 20% of the full charge. Essex authorities have worked collaboratively on local schemes and the most common charge is 20% although this does vary between 15% and 35% depending on the how the current caseload is made up. This is because even though the scheme is described as local there are still some central requirements like those of pensionable age still being eligible for full benefit. Consequently if you have a higher percentage of pensioners in your caseload you will have to impose a higher charge on working age claimants.

33. The Council, in common with other Essex authorities, put a draft scheme out for a six week consultation from 1 August. Responses are still being analysed and will be taken into account in formulating the final scheme before it is put to Council for approval.

34. Before leaving Local Support for Council Tax it is worth mentioning an area that had concerned town and parish councils. As the local schemes provide a discount rather than a benefit they reduce the taxbase, which has implications for all precepting authorities. This is a difficult issue for district councils to work through and one that many town and parish councils simply thought was beyond them. Thankfully DCLG have acknowledged this as an unintended consequence and issued a consultation that could result in town and parish councils not being affected.

35. Some of the other key welfare reforms that will affect residents and the Council are Universal Credit, the weekly benefits cap and the “bedroom tax”. Universal Credit (UC) is

meant to simplify the welfare system by replacing a number of existing benefits with a single monthly payment. One of the main problems with UC is that it starts on 1 October 2013 for new cases and that existing cases will migrate over a number of years, in a manner still to be confirmed. This means the existing housing benefit system will need to remain in place but will gradually decline. It also means it will not be possible to fully align work incentives with local council tax support schemes until the commencement of their second year of operation on 1 April 2014. This situation is likely to be confusing for the public, for example two neighbours one an existing housing benefit claimant and one a new UC claimant. These people would have different contact points and receive different amounts of money at different times.

36. Before leaving UC it is worth mentioning the small matter of the nationwide IT system that is required to make UC work but that most commentators believe will not be ready in time. There is also the issue that ultimately when UC is fully operational district councils may be left with redundant housing benefit staff and systems. The DWP have stated that UC is so different from housing benefit that there is no right for staff to transfer under TUPE and that they will not be required to compensate councils for redundancy costs. This view is being challenged by the Local Government Association.

37. The weekly benefit cap will limit the maximum amount of benefit that people can receive. Where entitlement exceeds the cap the Department for Work and Pensions will notify the person's council who will then have to deduct the excess amount from the person's housing benefit. The "bedroom tax" will also restrict housing benefit as if someone is deemed to be under occupying a property (i.e. the property has more bedrooms than the DWP criteria specify for their circumstances) their housing benefit will be reduced by 14% for one bedroom and 25% if they have two more bedrooms than they need. This does create an issue for families whose children may be leaving home and of course for local authorities and social landlords who may not always have properties available that exactly match the criteria for a given family.

<u>New Homes Bonus</u>

38. There was concern with the re-working of local government funding that the New Homes Bonus (NHB) might have been removed or diminished in some way. This authority has done relatively well from NHB and £715,000 is currently included in CSB income, £295,000 in respect of 2011/12 and £420,000 in respect of 2012/13. It is clear that the Government wants to incentivise authorities to promote both economic and residential development and that as part of that NHB will remain as a key funding stream. As the funding for NHB is top sliced from the control totals and then re-allocated on the basis of relative performance in housing growth there will be a strong cumulative redistributive effect, this will penalise areas of low housing growth.

39. The amount of NHB payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average Council Tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. For 2013/14 the Council will receive approximately £450,000 and it is proposed to add that amount to the CSB income figure.

40. A question remains of how much of this income should be taken into the CSB budget for each year through the life of the MTFS. At one extreme it could be argued that to build any income into the CSB would make the Council vulnerable to judicial review on planning decisions and may not be prudent until there is clarity over the full make up of and inter-relationships between the different funding streams. At the other extreme it could be argued that £300,000 of income should be added to the CSB for every year from 2011/12 going forward up to the maximum of six years (2011/12 £0.3m, 2012/13 £0.6m, 2013/14 £0.9m

2014/15 £1.2m, 2015/16 £1.5m and 2016/17 and onwards £1.8m). On one hand, if no income is taken into account severe reductions could be made to services that ultimately prove to be unnecessary, from a financial point of view. On the other, if too much income is allowed for the Council could find itself having to implement substantial cuts on a short time scale. Although it should be remembered that our reserves exist as a buffer against any need to make sudden changes.

41. A prudent position at the moment is to allow for the income for 2011/12, 2012/13 and 2013/14 but no additional income beyond that, as in theory the council tax base could in future reduce. This is unlikely given that the Council itself is embarking on a house building programme and that demand for housing in the district remains high. It is possible that in future years once the Local Plan has been approved a clearer picture may emerge on future housing growth.

Double-Dip Recession

42. Recent weeks have seen reductions in growth predictions for both the domestic and European economies, and unemployment remains a common concern. In addition to this public borrowing statistics have been worse than anticipated and may herald further austerity measures. Assurances from the European Central Bank have helped provide a bounce for the Euro but there is still a widely held view that it is inevitable that Greece will eventually have to revert to its own currency. Overall prospects for economic growth are not good.

43. The changes discussed above, with local authority financing coming from retained business rates and the localisation of council tax support, transfer substantial financial risks to local authorities from Government. If once these reforms are in place a large employer or employers were to close this could have severe consequences for the Council. There could be a combination of reduced income because of the reduction in NNDR, increases in claims for CTB and increased demands on services. So whilst the devolution of genuine power and freedoms would be welcomed, Members also need to be aware of the increased risks.

44. The recession also has a damaging effect on the housing market. Recent statistics have shown that many developers have banked land and planning approvals but are not willing to build until market conditions improve. This limits the income that could come from the New Homes Bonus. A final concern on the economy is the potential effect on the market at North Weald, which is a significant income stream. All of the Council's key income streams will continue to be closely monitored.

Development Opportunities

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

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

Community Budgets

47. One of the Government's ideas for public sector reform is the combining of budgets of different public sector bodies within an area to provide an overall Community Budget. A number of pilot areas have been selected across the country to examine various themes and projects to seek better overall value for money from public expenditure. Essex is one of the pilot areas and the County Council have been working on a number of business cases. This work has included projects on families with complex needs, domestic abuse, reducing re-offending and asset management.

48. Whilst the concept of co-ordinated spending and efforts to achieve better overall outcomes are laudable, there is a concern to protect the interests of this district. The business cases are not yet fully developed but there are troubling aspects to some of them. For example, the asset management paper suggests county wide co-ordination of property with assets no longer being held and controlled by individual authorities. This may suit authorities with few assets and little property related income but it could have dire consequences for this authority.

49. It will be important going forward that Members are fully aware of all the financial and policy implications of Community Budgets, or other similar schemes. Before any business case can be formally supported it must be robustly constructed and should not be significantly detrimental to the interests of any authority being asked to participate.

Organisational Review

50. The Council, as an organisation, has not made substantial changes to its structure for many years. With changes in funding structures and responsibilities the whole public sector is at a crossroads. An opportunity has arisen with the appointment of a new Chief Executive for a fresh review of the organisation. Over the next year it will be important to ensure that structures and staffing are appropriate to deliver the vision of Members and serve the community.

51. At the moment the MTFS has not been adjusted for any changes to the organisation as these cannot easily be anticipated. However, it is likely that any changes will have implications for both the CSB and DDF.

District Development Fund

52. The carry forward of £446,000 represents a decrease of £16,000 on the £462,000 of slippage for 2010/11. This improvement is partly due to the tighter controls on DDF budgets as budgets over a given age are no longer carried forward automatically but have to be justified. 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.

53. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £1.091m of DDF available at 1 April 2017.

The Capital Programme

54. Council house sales remained in single digits for the fourth year in a row, although the values did slightly exceed the amounts allowed for in the revised estimates. The Government has attempted to boost right to buy sales by increasing the discount that tenants can receive. This has increased the number of enquiries from tenants but it remains to be seen how many of these enquiries will ultimately result in sales. There has been only one completion so far in the first four months of 2012/13. The Capital Programme has not been adjusted to anticipate any increase in the level of Council house sales.

55. 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.

56. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 25 June 2012 highlighted that the underspend of £2.766m was higher than the previous years figure of £1.49m. Non-housing expenditure was £1.135m below the estimate at £2.993m, whilst housing expenditure of £6.57m was £1.631m below the estimate of £8.201m. The slippage in the programme will be carried forward to subsequent periods.

A Revised Medium Term Financial Strategy

57. 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 £250,000 in 2013/14, increasing to £400,000 for 2014/15 and 2015/16 before reducing to £200,000 for 2016/17. These savings would give total CSB figures for 2012/13 revised of £14.636m and 2013/14 of £14.906m.

58. This proposal sets DDF expenditure at £1.539m for the revised 2012/13 and £560,000 for 2013/14, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

59. 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 £15.842m at 1 April 2012 to £7.894m at 1 April 2017.

60. 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

61. The Government provided incentives for authorities to freeze the Council Tax in both 2011/12 and 2012/13, although it appears no similar scheme will be put in place for 2013/14. Members still have an ambition to be the district with the lowest Council Tax in Essex and in line with this ambition and a desire to restrict the burden on hard pressed tax payers an increase of only 1% has been included for 2013/14. From 2014/15 onwards it is assumed that future increases will not exceed 2.5%.

62. As an alternative, Annexes 1 (c & d) show the effect of a 0% increase in 2013/14. If this strategy is pursued instead of a 2.5% increase the balance on the General Fund Reserve at the end of 2016/17 will be £416,000 lower at £7.323m. However, this would still mean the balance at 31 March 2017 was more than 51% of the Net Budget Requirement for 2016/17.

Conclusion

63. The Council is in a stronger financial position than had been anticipated. This is due to the greater level of savings in 2011/12, savings being negotiated on key contracts and reductions in underspent budgets. However, there are significant uncertainties and challenges ahead. Through the proposals to retain business rates and localise support for council tax the Government is adding to the existing incentive of the New Homes Bonus to encourage authorities to promote development. Those authorities that are relatively more successful in growing their council taxbase and rating list will gain at the expense of others. But with these opportunities comes financial risk and given the overall problems in the UK

and world economies it is debateable whether now is a good time to be taking on more financial risk.

64. Whilst not wishing to undermine the MTFS, it must be remembered the proposals to put in place business rates retention and local council tax support are still being consulted on. Against this background and the uncertain economic climate it is difficult to robustly predict forward to the end of 2016/17. During the course of the development of the proposals the amount of business rates retained has reduced from 100% to 50%, the tariff and top-up positions between counties and districts has been reversed, the amount to be top sliced from the control totals in 2013/14 to fund NHB may be as much as £2bn or as little as £500m, there is also the DCLG's evident lack of understanding about taxbases which has necessitated their latest consultation running from 28 August to 9 October.

65. Despite all the uncertainty the Council can look forward with a degree of confidence. At the end of 2012/13 the balance on the general fund reserve is predicted to exceed £9.3m and the balance on the DDF to be just under £2m. This position of financial strength means that whatever the outcomes are of the funding and benefit changes, a measured view can be taken on their implementation.

Resource Implications:

The report covers resource implications over a four-year period and provides an updated Medium Term Financial Strategy.

Legal and Governance Implications:

None.

Safer, Cleaner, Greener Implications:

The Safer, Cleaner, Greener initiative is considered in the report.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

No equalities impacts.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges.

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2012/13 - 2016/17

ORIGINAL 2012/13		REVISED FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
15,968	Continuing Services Budget	15,968	15,580	15,073	15,087	14,782
-1,233	CSB - Growth Items	-1,332	-424	109	45	0
0	Net saving	0	-250	-400	-400	-200
14,735	Total C.S.B	14,636	14,906	14,782	14,732	14,582
1,117	One - off Expenditure	1,539	560	260	7	0
15,852	Total Net Operating Expenditure	16,175	15,466	15,042	14,739	14,582
-1,117	Contribution to/from (-) DDF Balances	-1,539	-560	-260	-7	0
13	Contribution to/from (-) Balances	112	-291	-521	-481	-281
14,748	Net Budget Requirement	14,748	14,615	14,261	14,251	14,301
	FINANCING					
6,657	Government Support (NNDR+RSG)	6,656	6,363	5,752	5,579	5,412
6,656	Total External Funding	6,656	6,363	5,752	5,579	5,412
8,168	District Precept	8,168	8,252	8,459	8,672	8,889
-76	Collection Fund Adjustment	-76	0	0	0	0
14,748	To be met from Government Grants and Local Tax Payers	14,748	14,615	14,211	14,251	14,301
	Band D Council Tax	148.77	150.30	154.08	157.95	161.91
	Percentage Increase %		1.0	2.5	2.5	2.5

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2012/13 - 2016/17

	REVISED FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	9,201	9,313	9,022	8,501	8,020
Surplus/Deficit(-) for year	112	-291	-521	-481	-281
Balance C/Forward	9,313	9,022	8,501	8,020	7,739
DISTRICT DEVELOPMENT FUND					
Balance B/forward	3,457	1,918	1,358	1,098	1,091
Transfer Out	-1,539	-560	-260	-7	0
Balance C/Forward	1,918	1,358	1,098	1,091	1,091
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	15,842	10,075	9,419	8,840	8,367
New Usable Receipts	174	234	294	294	294
Use of Capital Receipts	-5,941	-890	-873	-767	-767
Balance C/Forward	10,075	9,419	8,840	8,367	7,894
TOTAL BALANCES	21,306	19,799	18,439	17,478	16,724

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2012/13 - 2016/17

ORIGINAL 2012/13		REVISED FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
15,968	Continuing Services Budget	15,968	15,580	15,073	15,087	14,782
-1,233	CSB - Growth Items	-1,332	-424	109	45	0
0	Net saving	0	-250	-400	-400	-200
14,735	Total C.S.B	14,636	14,906	14,782	14,732	14,582
1,117	One - off Expenditure	1,539	560	260	7	0
15,852	Total Net Operating Expenditure	16,175	15,466	15,042	14,739	14,582
-1,117	Contribution to/from (-) DDF Balances	-1,539	-560	-260	-7	0
13	Contribution to/from (-) Balances	112	-375	-660	-575	-380
14,748	Net Budget Requirement	14,748	14,531	14,122	14,157	14,202
	FINANCING					
6,657	Government Support (NNDR+RSG)	6,656	6,363	5,752	5,579	5,412
6,656	Total External Funding	6,656	6,363	5,752	5,579	5,412
8,168	District Precept	8,168	8,168	8,370	8,578	8,790
-76	Collection Fund Adjustment	-76	0	0	0	0
14,748	To be met from Government Grants and Local Tax Payers	14,748	14,531	14,122	14,157	14,202
	Band D Council Tax	148.77	148.77	152.46	156.24	160.11
	Percentage Increase %		0.0	2.5	2.5	2.5

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2012/13 - 2016/17

	REVISED FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15	FORECAST 2015/16	FORECAST 2016/17
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	9,201	9,313	8,938	8,278	7,703
Surplus/Deficit(-) for year	112	-375	-660	-575	-380
Balance C/Forward	9,313	8,938	8,278	7,703	7,323
DISTRICT DEVELOPMENT FUND					
Balance B/forward	3,457	1,918	1,358	1,098	1,091
Transfer Out	-1,539	-560	-260	-7	0
Balance C/Forward	1,918	1,358	1,098	1,091	1,091
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	15,842	10,075	9,419	8,840	8,367
New Usable Receipts	174	234	294	294	294
Use of Capital Receipts	-5,941	-890	-873	-767	-767
Balance C/Forward	10,075	9,419	8,840	8,367	7,894
TOTAL BALANCES	21,306	19,715	18,216	17,161	16,308