Supplementary Committee Agenda

Epping Forest District Council

Cabinet
Monday, 4th February, 2013

Place: Council Chamber
Civic Offices, High Street, Epping

Time: 7.00 pm

Democratic Services: Gary Woodhall
The Office of the Chief Executive
Tel: 01992 564470
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17. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (non-executive bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks' notice of non-urgent items is required.

17.b PROPOSED REFURBISHMENT OF BAKERS LANE TOILETS, EPPING (Pages 129 - 130)

(Asset Management & Economic Development Portfolio Holder) To consider the attached report (C-063-2012/13).

18. COUNCIL BUDGETS 2013/14 (Pages 131 - 138)

(Finance & Technology Portfolio Holder) To consider the Chief Financial Officer's report on the robustness of the estimates and the adequacy of the reserves.

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Report to the Cabinet

Report reference: C-063-2012/13
Date of meeting: 4 February 2013

Epping Forest District Council

Portfolio: **Corporate Support Services**

Subject: **Proposed Refurbishment of Bakers Lane Toilets, Epping.**

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

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

Decisions Required:

(1) That the Council agree to additional capital expenditure of up to £85,000 plus vat for the refurbishment of Bakers Lane, Epping public toilet block subject to a contribution of £50,000 from Essex County Council towards the provision of disabled and changing places facilities; and

(2) That a supplementary District Development Fund estimate in the sum of £21,000 be recommended to the Council for approval to relocate The Superloo in Bakers Lane, Epping to Buckhurst Hill.

Executive Summary:

The Council have been considering the provision of public toilet facilities for some time since taking the opportunity to serve a notice to terminate the ATC(automatic toilet) leased from JC Decaux in Buckhurst Hill. The ATC in Buckhurst Hill does not have full disabled access and costs £18,000 per annum to lease from JC Decaux. By replacing this with the superloo from Bakers Lane, Epping the Council will save £18,000 per annum and have a toilet with full disabled access. The cost of moving the superloo to Buckhurst Hill has been estimated at £21,000 plus vat. The net cost of £35,000 will be met from capital resources and the £21,000 from The DDF making £56,000 expenditure to carry out this work. This money would be recouped in just over three years by the saving of the ATC rental of £18,000 per annum.

Reasons for Proposed Decision:

To provide high quality public toilet provision within the District with full disabled access.

Other Options for Action:

To keep the superloo in Baker Street, Epping and provide a new superloo in Buckhurst Hill at a cost of at least £18,000 per annum.

Report:

1. Essex County Council have capital money to spend in this financial year's budget for changing places disabled toilet facilities. Changing places facilities are for severely disabled people and their carers to use and incorporate devices such as lifts and hoists. The nearest changing places from Epping is 22 miles away.

2. Epping Town Council have indicated that if the refurbishment of the toilet block is approved by the District Council then they will look to approve the Town Council taking over responsibility for running and maintaining the block in the future. This would need to be agreed as a prerequisite before EFDC commenced work.

Resource Implications:

Initial capital provision of £35,000 to provide an annual revenue saving to Council after three years. The project would be managed by in house resources.

Legal and Governance Implications:

A new agreement would need to be signed between the District Council and Epping Town Council.

Safer, Cleaner and Greener Implications:

Existing toilet facilities would be greatly improved with safer disabled access.

Consultation Undertaken:

Expert advice sought from external surveyors.

Background Papers:

None.

Impact Assessments:

Risk Management
No risks identified.

Equality and Diversity
The refurbishment of the toilet block and moving of the superloo to Buckhurst Hill will provide safer access and greatly improved disabled facilities in these locations.

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
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
That disabled facilities could be greatly enhanced by this scheme.

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?
Not applicable.

Annex 6

The Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2013/14 budgets and the adequacy of the reserves.

Introduction

1. The Local Government Act 2003 section 25 introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2013/14. If this advice is not accepted, the reasons must be formally recorded within the minutes of the Council meeting. Council will consider the recommendations of Cabinet on the budget for 2013/14 and determine the planned level of the Council's balances.

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

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

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

The Robustness of the Recommended Budget

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

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

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

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

6. With a Cabinet system the onus is on Portfolio Holders to work closely with Directors to deliver acceptable and accurate budgets. This role has been taken seriously and has helped enhance the detailed knowledge of the Cabinet. There is an established process that allows the Finance Scrutiny Panel to challenge and debate the detailed budgets with the Finance Cabinet Committee.

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

8. **The conclusion is that the estimates as presented to the Council are sufficiently robust for the purposes of the Council's overall budget for 2013/14.**

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

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

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

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

Factor Assessment

a. **Inflationary pressures**

11. Every year base budget estimates are produced and then different inflation factors are applied to the resultant figures to take budgets to out-turn prices. It is inevitable that there will be either over or under provision for the full cost of inflation, as prices will vary against the estimates made. Efforts have been made to predict the level of inflation in the coming year, although the difficulty in making these predictions is highlighted by inflation remaining stubbornly high and above the target for, and predictions of, the Monetary Policy Committee. Inflation, as measured by the annual rate of increase in the Retail Prices Index, increased from 3.0% for November to 3.1% for December. Over this period the Consumer Prices Index (CPI) was constant at 2.7% and so well above the Government target of 2%. However, whilst recovery in the overall economy remains weak the Monetary Policy Committee are likely to continue their cautious stance and not intervene with increases in interest rates to reduce inflation.

12. Inflation, as measured by CPI, has come down from its peak above 4% but remains above 2.5% and contributes to pressure for a pay award. Pay rates have been frozen since 2010/11 and the Government has stressed the need for restraint in public sector pay over the length of the Comprehensive Spending Review. The Medium Term Financial Strategy (MTFS) includes an allowance of 1% for pay awards for 2013/14 and 2014/15. In the budgets the centrally held vacancy allowance has been maintained at 2.5%. This will be carefully monitored as many vacant posts have now been deleted and this should result in a reduction in the historically high levels of salary under spends.

b. **Estimates on the level and timing of capital receipts**

13. The Council has always adopted a prudent view on the level and timing of capital receipts. Capital receipts are not recognised for budgetary purposes unless they have been received or their receipt is contractually confirmed prior to the budget being ratified. Currently, no significant disposals are anticipated in 2013/14.

14. The exception to this relates to receipts from council house sales. In this instance because sales occur throughout the year assumptions are made about their generation. Although sales have fallen dramatically from previous years and the pattern of less than 10 sales per annum is expected to continue. Following the increase in Right to Buy discounts during 2012/13 there was a marked increase in enquiries. However this is yet to translate to an increase in sales as it remains difficult to obtain a mortgage.

15. Even with the Authority's substantial capital programme, which exceeds £83m over five years, it is anticipated that the balance of usable capital receipts at 31 March 2017 will be £7.8m. The Capital Strategy continues to emphasise that priority will be given to capital schemes that will create future revenue benefit, either through increased income or reduced costs.

c. Treatment of demand led pressures and savings

16. Demand led pressures on the benefits and homelessness services may well increase as the Welfare Reforms begin to impact. Locally the stagnation in the housing market seems to be improving, with some increases in key income streams like planning and land charges. The move away from prescribed planning fees has been abandoned. It had been proposed that Council's would be able to seek full recovery of their planning costs, but instead authorities were allowed to increase charges by 15%.

17. Savings have been achieved for the 2012/13 and 2013/14 budgets by focusing on areas that have historically underspent. This has been an ongoing process to remove under spends and limit budgets going forward to the average amount spent in the previous three years. One of the most significant changes in the estimates is the increase in rental income from industrial estates. This has added income of £109,000 to the revised estimates and another £70,000 to the 2013/14 figures. Savings to the General Fund on the deletion of some vacant posts reduced the revised estimates by £80,000 and the 2013/14 estimates by another £114,000. Another large saving affecting both 2012/13 and 2013/14 is the reduction in the management fees for the leisure contract, which has reduced by £54,000 in 2012/13 and £66,000 for 2013/14. The amendments to the car leasing scheme have removed £82,000 from the General Fund, although this is spread over a number of years. A number of other smaller savings have also been identified and together these provide a sound base for the 2013/14 budget. However, there is still a need for further savings in 2014/15 and 2015/16 and work is ongoing on a number of ideas to reduce net costs.

d. Risks inherent in partnership arrangements etc

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

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

19. The Authority is no longer debt free, due to self-financing for the Housing Revenue Account (HRA). Although this is not a significant concern as the 30 year business plan for the HRA has demonstrated that the Authority will be considerably better off in the long term. Revenue reserves for both the General Fund and the HRA are in a healthy state.

20. A major threat to the Authority's financial standing is further substantial reductions in central government funding as part of the next Comprehensive Spending Review (CSR). For 2013/14 and 2014/15 combined we have seen a reduction in formula grant of £1.53 million or nearly a quarter. The period beyond 2014/15 will be the subject of the next CSR and by then there may have been an improvement in the economy and possibly a change of Government. This means predicting beyond 2014/15 is hazardous although if current trends are maintained there will be further reductions in revenue support grant and an increasing reliance on retained business rates.

21. With the country on the verge of a triple dip recession this is not an ideal time for central government to be transferring large financial risks to local authorities. This transfer of risk is present in both the localisation of Council Tax Benefit and

the local retention of non-domestic rates. Under Council Tax Benefit the Authority was reimbursed in full. Under Local Council Tax Support the Authority receives a fixed grant of 90% of previous expenditure and carries the demand risk of the caseload increasing. Under the formula grant system non-domestic rates were pooled centrally and then redistributed. Individual authorities did not get more grant from growth in their non-domestic rate list but equally their grant was not reduced if their list contracted. Under local retention of non-domestic rates, if there is contraction in the rating list the authorities funding will reduce. The way the system has been designed it is actually worse than that, as the tariffs which are paid to central government are index linked it is necessary to increase the rating list just to standstill. The two financial risks are likely to work in the same direction, if there is a decline in businesses and jobs there is likely to be an increase in council tax support caseload.

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

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

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

24. The quarterly budget monitoring reports on key budgets to both the Finance and Performance Management Cabinet Committee and Scrutiny Panel will continue throughout 2013/14. The production of these reports during the year is essential in identifying emerging problems at the earliest opportunity. This allows maximum benefit to be accrued from any corrective action taken.

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

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

h. The adequacy of insurance arrangements

26. On 23 July 2012 Cabinet decided to exercise the two year extension option to the three year contract which commenced in June 2010. The 2010 contract was entered into following a collaborative procurement exercise with twelve other authorities. Market intelligence suggested a re-tender at this time was unlikely to provide good value for money, particularly as Zurich had offered to freeze premiums in the first year of the extension. The Authority still maintains an insurance fund, which as at 31 March 2012 had a balance of £1.14 m.

i. Pension liabilities

27. The latest triennial valuation as at 31 March 2010 showed a reduction in the funding level of the scheme to 71% (the value of the scheme's assets only cover 71% of the liabilities). However, the actuaries have been able to keep the deficit payments at a similar level for three years by increasing the deficit recovery period from 20 to 27 years. Ongoing contributions have benefitted from a slight reduction from 13.1% to 13%. The next valuation at 31 March 2013 will set the contributions for 2014/15 and the two subsequent years.

28. In previous years annual applications have been made to Department for Communities and Local Government (DCLG) for capitalisation directions, as separate directions are required for the Housing Revenue Account and the General Fund. It has been increasingly difficult to obtain capitalisation directions and for 2011/12 the qualifying criteria were doubled. Even though the applications for 2011/12 met the tougher criteria they were still rejected by DCLG. In view of this no applications were made for 2012/13 and the full amounts of the deficit payments have been included in the CSB.

Statement on the adequacy of the reserves and balances

29. The Use of Resources assessment previously conducted by the external auditors moved on from the formulaic approach of CPA to achieve the 'good' ranking for reserves. The old formula had suggested that the Council should maintain a General Fund balance of at least £0.89m but no more than £17.86m. The Council's current best estimate of the General Fund balance at 31 March 2014 is £9.13m as shown in the Annex 4 b. This is clearly within the range specified but as a benchmark is not particularly useful. Therefore a risk assessment related to the Authority's individual circumstances is provided as a more meaningful benchmark against which the adequacy of the balances can be determined.

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

Item of risk	Estimated level of financial risk £000	Level of risk %	Adjusted level of risk £000
Basic 5% of Net Operating Expenditure			800
Grant reduction being 10% instead of 2% beyond 2014/15	1,000	40	400
Pay award being settled 1% in excess of estimate for 13/14 and future years	800	25	200
Inflationary pressures between 1-4% higher than budget	600	20	120
Loss of North Weald Market Income	4,000	25	1,000
General Income between 1-4% less than budget	600	10	60
Unintended consequences of HRA reform impacting on General Fund	2,000	10	200
Localisation of Council Tax Benefit - Increase in caseload not covered by funding	1,000	40	400

Retention of non-domestic rates – failure to achieve growth in list	1,000	35	350
Renegotiating External contracts and partnership arrangements	1,000	10	100
Emergency Contingency	800	20	160
New Homes Bonus, income over MTFS greater than anticipated	(1,200)	30	(400)
Total	11,600		3,390

31. The estimates for income generated from the market at North Weald airfield have been reduced but this remains a key source of income. Uncertainties surrounding the future of the airfield create a risk to the Authority that needs to be recognised and quantified hence its inclusion in the list above.

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

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

34. Based on the old CPA formula there is an expectation that an authority should carry a level of balance that equates to at least 5% of the net operating expenditure (NOE) of the Authority. During the period of the four-year plan NOE is expected to average out at £14.5m, which suggests a figure of £725,000.

35. The Council has always been conscious of its balances position as can be demonstrated by budget reports over many years. Fortunately for the Authority the question had not been whether it had a sufficient level of balance but rather that it had too much. Balances increased by £631,000 in 2011/12 to leave a balance of £9.2m at 31 March 2012.

36. A number of policies have been determined previously to bring about reductions and the current policy reflects that deficit budgets are necessary to support the structured reduction in spending. The current policy allows for balances to fall to no lower than 25% of Net Budget Requirement (NBR). This is slightly different from the NOE stated above, the average NBR figure for the next four years is expected to be £13.8m therefore 25% of that figure equates to £3.5m. The current four-year forecast shows balances still at £7.8m at the end of 2016/17.

37. The risk assessment undertaken above suggests that 20-25% of NBR is about the range that this authority should be maintaining its balances within. By 31 March 2017 balances will represent 57% of NBR, which is more than adequate. However, Members are aware that this situation can only be achieved with CSB savings and have stated a clear target of reducing expenditure throughout the period of the medium term financial strategy.

38. It has already been stated that the capital fund is expected to remain in a surplus position beyond 2016/17 and the capital programme is fully funded.

39. The main earmarked reserve is the District Development Fund (DDF) which is used to keep one off items of income and expenditure separate from the base budget. At 31 March 2012 the balance on the DDF was £3.5m, which was a reduction of £0.5m in the year. The DDF is predicted to have a balance of £1.6m at the end of 2016/17, although this is likely to be reduced by the Local Plan and any organisational changes. The only other earmarked reserve with a significant balance is the Insurance Reserve, which stood at £1.1m at the end of 2011/12. This was an increase of £719,000 in the year to ensure there is sufficient money in the fund to deal with any claims arising from the administration of Municipal Mutual Insurance.

40. The HRA revenue balance of £4.5m at 31 March 2012 is expected to decrease, by £938,000 in 2012/13 and then increase by £127,000 in 2013/14. The balance on the Housing Repairs Fund is expected to increase slightly over the next year, from £4.5m to £4.6m. In contrast the Housing Major Repairs Reserve is predicted to decrease from £9.9m to £8.2m. The 30 year business plan has demonstrated that under self-financing the overall financial standing of the HRA will improve significantly and its reserves going into 2013/14 remain healthy.

41. The conclusion is that the reserves of the Council are adequate to cope with the financial risks the Council faces in 2013/14 but that savings will be needed in subsequent years to bring the budget back into balance in the medium term.