

# Supplementary Council Agenda



**Epping Forest  
District Council**

## ***Council Tuesday, 21st February, 2006***

**Place:** Civic Offices, Epping  
**Room:** Council Chamber  
**Time:** 7.30 pm  
**Committee Secretary:** Council Secretary: Ian Willett  
Tel: 01992 564243 Email: [iwillett@eppingforestdc.gov.uk](mailto:iwillett@eppingforestdc.gov.uk)

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### **5. REPORTS OF THE CABINET (Pages 3 - 76)**

To consider the following reports of the Cabinet:

(c) Council Budgets and Council Tax Declaration – report attached.

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## **Report to the Council**

**Committee:** Cabinet

**Date:** 21 February 2006

**Portfolio Holder:** Councillor J Knapman

**Item:** 5 (c)

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### **1. BUDGETS AND COUNCIL TAX DECLARATION 2006/07**

**Recommending:**

**Budget**

(1) That the list of CSB growth for the 2006/07 budget (set out in Annex 1) be approved;

(2) That the list of District Development Fund items for the 2006/07 budget (set out in Annex 2) be approved;

(3) That the revenue estimates for 2006/07 and the draft Capital Programme for 2006/07 be approved as set out in Annexes 3, 4 (a-k) and 5 including all contributions to and from reserves as set out in the attached Annexes;

(4) That the four year financial forecast be approved as set out in Annexes 8A and 8B;

(5) That the 2006/07 HRA budget be approved and that the application of rent increases and decreases in accordance with the Government's rent reforms and the Council's approved rent strategy, resulting in an average increase of 5% from £61.10 to £64.15, be approved.

**Declaration of Council Tax**

(6) That it be noted that on 2 December 2005, the Finance and Performance Management Portfolio Holder in consultation with the Chairman of the Overview and Scrutiny Committee calculated the following amounts for the year 2006/07 in accordance with regulations made under Section 33(5) and 34(4) of the Local Government Finance Act 1992:

(a) 53,140.9 being the amount calculated by the Council in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 as the Council Tax Base for the year;

(b) Part of the Council's Area

**Band D  
Equivalents**

Essex County Council (General Expenses)	53,140.9
Essex Police Authority	53,140.9
Essex Fire Authority	53,140.9
Epping Forest District Council (General Expenses)	53,140.9
Abbess, Beauchamp & Berners Roding	198.4
Buckhurst Hill	5,116.3
Chigwell	5,906.5

Epping Town	4,942.0
Epping Upland	406.6
Fyfield	413.9
High Ongar	555.0
Lambourne	923.1
Loughton Town	12,701.4
Matching	305.5
Moreton, Bobbingworth and The Lavers	649.0
Nazeing	2,067.1
North Weald Bassett	2,514.2
Ongar	2,571.3
Roydon	1,306.8
Sheering	1,315.7
Stanford Rivers	352.2
Stapleford Abbotts	492.1
Stapleford Tawney	56.1
Theydon Bois	1,942.5
Theydon Garnon	59.9
Theydon Mount	103.4
Waltham Abbey Town	8,002.9
Willingale	239.0

being the amounts calculated by the Council in accordance with Regulation 6 of the Regulations as the amounts of the Council Tax Base for the year for dwellings in those parts of the area to which one or more special items relate;

(7) That the following amounts be now calculated for the year 2006/07 in accordance with sections 32 to 36 of the Local Government Finance Act 1992:

- (a) £78,523,719 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2) (a) - (e) of the Act;
- (b) £60,143,496 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3) (a) - (c) of the Act;
- (c) £18,380,223 being the amount by which the aggregate at (a) above exceeds the aggregate at (b) calculated by the Council in accordance with Section 32(4) of the Act as its budget requirement for the year;
- (d) £8,638,407 being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of redistributed Non Domestic Rates and Revenue Support Grant and increased by the amount the Council estimates will be transferred in the year from its Collection Fund to the General Fund in accordance with Section 97(3) of the Local Government Finance Act 1988 and the amount which the Council estimates will be transferred from the Collection Fund to the General Fund pursuant to the Collection Fund (Community Charges) (England) Directions 1994 made under Section 98(4) of the Local Government Finance Act 1988;
- (e) £183.32 being the amount at (c) above, less the amount at (d) above, all divided by the amount at (6)(a) above, calculated by the Council in accordance with Section 33(1) of the Act as the basic amount of its Council Tax for the year;
- (f) £2,582,129 being the aggregate amount of all special items referred to in Section 34(1) of the Act;

(g) £134.73 being the amount at (e) above, less the result given by dividing the amount at (f) above by the amount of (6)(a) above, calculated by the Council in accordance with Section 34(2) of the Act as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates;

(h) Part of the Council's Area	Amount £
Abbess, Beauchamp & Berners Roding	152.37
Buckhurst Hill	203.73
Chigwell	164.61
Epping Town	200.49
Epping Upland	160.55
Fyfield	150.68
High Ongar	150.62
Lambourne	161.81
Loughton Town	179.66
Matching	156.01
Moreton, Bobbingworth and The Lavers	150.91
Nazeing	160.92
North Weald Bassett	174.14
Ongar	181.85
Roydon	154.82
Sheering	151.83
Stanford Rivers	163.69
Stapleford Abbotts	144.10
Stapleford Tawney	156.12
Theydon Bois	165.65
Theydon Garnon	150.09
Theydon Mount	146.12
Waltham Abbey Town	219.77
Willingale	149.79

being the amounts given by adding to the amount at (7)(g) above the amounts of the special item or items relating to dwellings in those parts of the Council's area mentioned above divided in each case by the amount at (6)(b) above, calculated by the Council in accordance with Section 34(3) of the Act as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate;

(i) the amounts shown in Annex 6 to this report, being the amounts given by multiplying the amounts at (7)(h) above by the number which is the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band, divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council in accordance with Section 36(1) of the Act as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

(8) That it be noted that for the year 2006/07 the major precepting authorities have stated that the amounts shown in Annex 7 Part A (tabled) are the precepts issued to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwellings shown;

(9) That, having calculated the aggregate in each case of the amounts at (7)(i) and (8) above, the Council in accordance with Section 30(2) of the Local Government Finance Act 1992 hereby sets the amounts in Annex 7 Part B (tabled) as the amounts of Council Tax for the year 2006/07 for each of the

categories of dwellings shown;

**(10) That the Council's policy of retaining revenue balances at no lower than £3.7M or 25% of the net budget requirement whichever is the higher for the four year period to 2008/09 be amended to no lower than £3.7M or 25% of the net budget requirement whichever is the higher during the four year period up to and including 2009/10;**

**(11) That the recommendations included in the report on the Prudential Indicators and the Treasury Management Strategy for 2006/07 (set out in Annex 9) be approved; and**

**(12) That the report of the Chief Financial Officer on the robustness of the estimates for the purposes of the Council's 2006/07 budgets and the adequacy of the reserves be noted.**

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### **General Fund Budget Guidelines**

1. In previous years budget guidelines have been set in November and then monitored through the budget process. The adoption of a new method of grant allocation has had a significant impact on the Council's previously agreed financial strategy. In view of this Members felt it inappropriate to set guidelines and requested a revised four-year forecast be prepared to take account of the additional grant.
2. The revised four-year forecast has now been considered and approved by the Finance and Performance Management Cabinet Committee, the Finance and Performance Management Scrutiny Panel, the Overview and Scrutiny Committee and Cabinet.
3. The budget guidelines agreed by Cabinet on 6 February are as follows:
  - i. The ceiling for CSB net expenditure be no more than £15.3m including net growth/savings.
  - ii. The ceiling for DDF net expenditure be no more than £1m.
  - iii. The District Council Tax be increased by no more than 2.46%.

### **The Current Position**

4. A review of the key budget areas is given below.

**(a) The ceiling for CSB net expenditure be no more than £15.2m including net growth;**

Annex 1 lists all the CSB changes for next year. Some of the growth items listed are for sums agreed as part of previous year's budgets but most are new for next year. The largest item for next year is £582,000 for the costs of increasing the benefits of the concessionary bus pass scheme to fare paid from half fare. Initially it had been feared that the Government would use this change as an opportunity to reduce floor funding and that the Council would be facing a substantial increase in costs that was not matched by increasing Government support. It now appears that the additional funding included in our provisional settlement for this change exceeds the estimates of MCL, the consultants employed by Essex County Council to administer the scheme, of the additional costs that will be incurred. The Head of Finance believes some of the assumptions in the MCL model are over optimistic and feels it unlikely that any surplus of funding over costs will arise.

The other significant item of CSB growth is £139,000 for additional refuse and

recycling costs. In order to achieve higher levels of recycling, and so save money in the longer term, it has been necessary to offer additional recycling services and change the method of service delivery for residual waste. A pilot for the new method of dealing with residual waste is in place and the scheme will be rolled out across the district during 2006. Initial results are promising with substantial increases being seen in the amount of waste being recycled.

No CSB growth has been built into the budgets yet for the Customer Services Transformation Programme (CSTP). A Project Board has been established for the CSTP and this Board is currently working with Foresight Consultancy to develop a costed plan for the implementation of the programme. It is anticipated that the Board will report to Cabinet in March 2006 and at that point a supplementary estimate for 2006/07 may be requested.

CSB savings fall into two categories. The first group comprises savings from cost reductions. There are two main items in this group, firstly a £152,000 saving following the externalization of the management of the Councils leisure centers (this is in addition to a saving of £51,000 included in the 2005/06 revised estimates). Secondly, a saving of £114,000 to reflect savings in support service costs following the transfer of the Highways Agency back to Essex County Council and the change in leisure centre management. A savings of £66,000 is also included following a restructure of Leisure Services administration.

The other category of CSB savings covers the areas where income has been increased. The most significant increase in income is the additional £50,000 of court costs income from Council Tax recovery work. This is in addition to increases of £40,000 for Council Tax and £10,000 for National Non-Domestic Rates included in the 2005/06 revised estimates.

**(b) The ceiling for DDF net expenditure be no more than £1m.**

The DDF net movement for 2006/07 currently stands at £996,000. Annex 2 lists all the DDF items in detail. There is £1.655m of net expenditure, which is offset by transfers in of some £659,000. The largest cost item is £513,000 for the set up costs of the alternative management of the leisure centres. Forward Planning costs of £237,000 are included, but most of this has been rolled forward from earlier periods. The other main item of expenditure is £159,000 for the refuse and recycling initiatives mentioned above. The transfers in are £233,000 of reimbursement of residual costs of highways from Essex County Council, £226,000 for the commutation adjustment and £200,000 for the Local Authority Business Growth Incentive Scheme.

**(c) The District Council Tax be increased by no more than 2.46%;**

In respect of the guideline for the Council Tax increase, the Finance and Performance Management Cabinet Committee felt that Council Tax increases should now be linked to changes in the Retail Price Index. The new four-year forecast reflects this with the increase for 2006/07 being 2.46% and a guideline for the following three years of 2.5%.

**(d) That longer term guidelines covering the period to March 2010 provide for:**

- (i) The level of General Fund revenue balances to be maintained within a range of approximately £3.5m to £4.0m but at no lower level than 25% of net budget requirement whichever is the higher;**

Current projections show this rule will not be breached by 2009/10, by which time reserves will still be £5.0m and 25% of net budget requirement will be £4.4m.

- (ii) **Future levels of CSB net expenditure being financed predominately from External Funding from Government and Council Tax and that support from revenue balances be gradually phased out.**

The outturn for 2004/05 added £1.026m to reserves and in addition to that net increases in reserves of £329,000 and £390,000 for 2005/06 and 2006/07 respectively are anticipated. This will give a peak in reserves of £6.21m at 31 March 2007, which will be 37.6% of the 2007/08 NBR. Given that the guideline of reserves at 25% of NBR is exceeded by some £2.1m at that point it is appropriate to revise the above guideline and consider deficit budgets in the three years 2007/08 to 2009/10.

### **The Local Government Finance Settlement**

5. The Finance and Performance Management Committee at its meeting on the 12 December received a detailed report on the provisional Local Government Finance Settlement. After three settlements under the previous system a new system has been introduced to produce a two-year settlement this time with the intention of providing three-year settlements in the future.
6. A “Four Block” system for formula grant has now been adopted which moves away from the notional spending and tax elements that were used in the previous system. This means the Assumed National Council Tax (ANCT) and Formula Spending Shares (FSS), that we were just becoming familiar with, will now not be heard of again.
7. The new system of formula grant comprises of four blocks:
  - A **relative needs block**, worked out through relative needs formulae (RNF). RNFs are split into blocks covering Children’s Services, Adult Services, Police, Fire and Rescue, Highways, EPCS and Capital Financing. The formula for each service is based on a per client amount with top-ups to reflect local circumstances, including deprivation and area costs.
  - A **relative resource amount**, to take account of different capacity to raise income from council tax. This is a negative amount.
  - A **central allocation** amount, which is allocated on a per capita basis.
  - A **floor damping block**, to ensure that all authorities receive a minimum grant increase.
8. Table 1 below shows how these four blocks combine to give formula grant figures both nationally and for Epping Forest District Council.



Table 1

	National Figures		EFDC Figures	
	2006/07 £m	2007/08 £m	2006/07 £m	2007/08 £m
Relative Needs Amount	14,816.65	15,336.75	5.728	5.742
Relative Resource Amount	-5,129.40	-5,309.46	-4.465	-4.724
Central Allocation	11,172.46	11,564.64	7.854	8.332
Police Grant	3,931.05	4,028.33	0.000	0.000
Floor Damping	0.00	0.00	-0.490	-0.189
<b>Formula Grant</b>	<b>24,790.76</b>	<b>25,620.26</b>	<b>8.627</b>	<b>9.161</b>

9. Besides the move from formula spending shares to relative needs formulae extensive changes have been made which are reflected in the RNFs. The EPCS block has been updated for the changes to concessionary fares, but this has been done by re-stating the 2005/06 settlement so as not to adversely impact on authorities receiving floor protection in 2005/06. A change that benefits EFDC greatly is the discontinuation of the two negative sub-blocks for interest on reserved capital receipts and interest receipts. The exemplifications that accompanied the consultation showed EFDC's FSS could increase by £1.653m due to these changes. Although as FSS no longer exists it is difficult to calculate the exact amount by which our grant has increased as a result of these changes.
10. EFDC has received floor support for many years and in 2005/06 this is worth some £412,000 to the authority. This is a significant amount of funding and the continuation of floor support has been a major concern. As EFDC has benefited from the formula changes it is now in a position of contributing to the floor to support others. The floor increase for shire districts for 2006/07 has been set at 3% and 84 districts will benefit from this floor support. In order to finance the floor, authorities like EFDC who have had their grant increased by more than 3% are having the amount of grant increase above the floor that they can keep restricted. For 2006/07 we are only able to retain 49.1% of the increase above the floor. This improves in 2007/08 when we will be able to retain 60.8% of the increase above the floor, which has been set as 2.7% for that year.
11. As the government no longer provides assumed national council tax or formula-spending share figures direct comparisons with previous years are extremely difficult. The position on comparability is made worse by the changes in responsibility and the additional spending due to changes like concessionary fares. The government has attempted to provide an indication of relative changes by re-stating the 2005/06 figures on the new basis, see table 2 below.

Table 2

	Original 2005/06 £m	Adjusted 2005/06 £m	2006/07 £m	2007/08 £m
Formula Grant	7.299	7.918	8.627	9.161
Increase £	n/a	0.619	0.709	0.534
Increase %	n/a	8.48%	9.0%	6.2%

12. In addition to the £8.627m shown above the Council will also receive £6,000 relating to prior years. These figures combined give a total grant figure for 2006/07 of £8.633m.

#### The Four-Year Council Plan

13. Over a number of years the Council's overall net spend has been controlled quite

stringently, clearly highlighted by the fact that we have the third lowest Council Tax in Essex and are well below the average nationally.

14. The provisional settlement for the next two years is a very favourable one. The Council was already in a strong financial position and this has now been enhanced. Through updating the four-year forecast it has been possible to demonstrate that the Council can now afford both lower Council Tax increases than had been anticipated and improvements to services.
15. With careful management and spending targeted on priority areas it should be possible to achieve improvements in key service areas. A new Council Plan to cover the period 2006 – 2010 is being produced and in constructing that document Members will consider carefully the targeting of the additional resources now available.

### **The 2006/07 General Fund Budget**

16. The earlier uncertainties over concessionary fares, changes to methods of service delivery and the changes to the grant formula have now largely been resolved. In the area of service delivery the main item still to be resolved concerns the costs of refuse and recycling services. A Cabinet Committee has been set up to review these costs and, in addition to the enhancements to the recycling and refuse services that are already in the budget, some further funds may be required. The other major area of uncertainty still pending clarification is whether the ODPM will provide a capitalisation direction to cover the pension deficit payments for 2006/07. A capitalisation direction has been obtained for 2005/06 but it is necessary to apply for each year separately.
17. The starting point for the budget is the attached four year financial plan Annex 8. Annexes 8a and 8b are based on the current draft budget, a Council Tax increase of 2.46% (£134.73 Band D) for 2006/07 and subsequent increases of 2.5% per annum for each of the following three years in accordance with the proposed new strategy of keeping Council Tax increases in line with the Retail Price Index.
18. Members are reminded that this strategy is based on a number of important assumptions and include the following:
  - Future Government funding will continue to rise at a gross rate of 2% per annum, with the net increase being 3.5% in 2008/09 and 2.5% in 2009/10.
  - All known CSB growth items have been budgeted for and £1m of growth is shown for 2007/08 to prevent further excessive growth in balances.
  - All known DDF items are budgeted for, but because of the substantial additional funds being added to the DDF the closing balance at the end of 2009/10 is still anticipated to be some £1.0m.
  - Maintaining revenue balances of at least 25% of NBR. The forecast shows that even with the deficit budgets included for the period 2007/08 to 2009/10 the closing balances at the end of 2009/10 will still be £5.0m or 28.7% of NBR.
19. Clearly the increase is lower than previously anticipated and provides a budget that allows many of the Council's objectives to be commenced or continued in 2006/07 and/or the medium term.

### **The Capital Programme**

20. The Capital Programme at Annex 5 shows the expenditure previously agreed by the Cabinet at its meeting on 6 February 2006. This includes additional funding for the Loughton Town Centre Enhancement, the Springfields housing scheme and the environmental works at Bobbingworth Tip.
21. Members have been advised previously of the pooling requirements for housing

capital receipts introduced by the Local Authorities (Capital Finance and Accounting) Regulations 2003. As a debt free authority this Council benefits from transitional arrangements in the three years 2004/05, 2005/06 and 2006/07, with capital receipts liable to pooling treated as reduced, respectively, by up to 75%, 50% and 25%, where the authority commits this amount of expenditure to assets held within the Housing Revenue Account.

22. The estimated amount of capital receipts to be retained by the Council through transitional relief between 2004/05 and 2006/07 has reduced from £7m to £5.5m, due to a reduced level of Council house sales. The Council will utilise the majority of this funding to invest in its own housing stock, to ensure that all its properties meet the Government's Decent Home Standard by 2010.
23. The most significant new item in the capital programme approved by Cabinet on 19 December was the addition of some £2.24m for the Customer Services Transformation Programme (CSTP). Members had prioritised the CSTP in the Capital Strategy, approved by Council on 13 December 2005. Foresight Consultancy have been engaged to produce a costed implementation plan for the CSTP and a degree of uncertainty over the amount of capital required for this project will remain until Foresight have reported their findings.
24. Annex 8b includes the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, of more than £50m over five years, it is anticipated that the Authority will still have £7.9m of usable capital receipt balances at the end of the period. Negotiations are underway for the disposal of the Parade Ground site at North Weald. In line with normal practice no account will be taken of any disposal proceeds until the deal has been completed.

### **The Housing Revenue Account**

25. The balance on the HRA at 31 March 2007 is expected to be £4.8m, after a surplus of £408,000 in 2005/06 and a deficit of £417,000 in 2006/07. A significant factor in the change from surplus to deficit has been the increase in the level of negative housing subsidy from £7.7m to £8.3m.
26. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process is referred to as Rent Restructuring and was introduced to bring Council rents and Housing Association rents more in line with each other. This process is set to continue until 2012 when most Local Authority and Housing Association rents should converge. Rent Restructuring is not mandatory however it is recommended as best practice and forms part of the Council's existing Rents Strategy. The average rent increase for 2006/07 is expected to be 5%.
27. An update to the current five-year forecast is being prepared and will pay particular attention to the worsening subsidy position. The HRA has enjoyed the benefit of generous and fairly stable balances for some time but for a number of reasons this position has now become more volatile and this development needs to be managed carefully.

### **Risk Assessment and the Level of Balances**

28. 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 2006/07. If this advice is not accepted, the reasons must be formally recorded within the minutes of the Council meeting. The report of the Chief Financial Officer as set out at Annex 10. Members will note the following conclusions of the

Chief Financial Officer:

- a. the estimates as presented are sufficiently robust for the purposes of the Council's overall budget for 2006/07; and
- b. the reserves of the Council are adequate to cope with the financial risks he Council faces in 2006/07 and the medium term.

### **The Prudential Indicators and Treasury Management Strategy 2006/07**

29. The Local Government Act 2003 requires local authorities to have regard to the CIPFA Prudential Code. The Prudential Indicators are set out in Annex 9.
30. The Treasury Management Strategy is separate from the Prudential Code although it complements it by covering good practice on the administration of debt, investments and related aspects of financial management.
31. Members approved a Treasury Management Strategy on 19 February 2004, which was based on the CIPFA and ODPM guidance mentioned above. To reflect the changing circumstances in which the Authority found itself, being debt free and having higher balances for investment, Council approved an updated Strategy on 14 December 2004. To give additional flexibility, should investment balances increase through any subsequent land sales, one further change is proposed at this point.
32. The current limit on funds invested for over 364 days is £10m and it is proposed to increase this limit to £15m. By taking the opportunity to change the policy now it is intended to give the treasury management staff sufficient flexibility to act quickly if a large capital receipt arises, rather than having to invest the funds at less favourable rates while a change to the policy is sought.

### **Council Tax**

33. The revenue and capital budgets of the various spending committees are set out in Annexes 4(a)-(k). Annex 3 summarises the overall budget for the Council for the General Fund and the HRA and is grossed up for the effects of local parish and town council precepts. Annex 5 summarises the Council's Capital Programme. The budget as submitted produces a District Council Tax (Band D) of £134.73 for 2006/07 (£131.49 for 2005/06), which represents a 2.46% increase. The average (Band D) Council Tax including local Parish/Town Council precepts will be £183.32 (£176.27 in 2005/06), which represents an approximate 4% increase.

### **Council Tax Declaration**

34. Under Recommendations (1) – (4) which include Annexes 1, 2, 3, 4(a)-(k) the Council will agree its budget for the next year. The Authority must then proceed to declare a Council Tax. The appropriate technical recommendations are set out in Recommendations (6) onwards. These follow the standard form of declaration recommended by the Local Government Association in consultation with the Secretary of State. They are designed to avoid the possibility of legal challenge to the declaration of the Council Tax.
35. The Council Tax bases for each band in each area of the District were approved by the Finance and Performance Management Portfolio Holder in consultation with the Chairman of the Overview and Scrutiny Committee. These are reproduced in Recommendation (6)(b) and form part of the ensuing calculations. The amounts to be levied within the District in respect of Essex County Council, Essex Police Authority, Essex Fire Authority and Parish and Town Councils are notified to this Authority and are matters on which the District Council has no discretion.

36. However, the precepts of Parish and Town Councils are levied on the District Council and then taken into account in the General Fund. Details relating to the District Council precept together with the precepts in respect of Parish and Town Councils are set out in the recommendations and analysis in Annex 6.

### **Guide to the Council Tax Calculation**

37. The figures in Recommendation (7) draw on calculations contained within the report as follows:

**7(a)** is the total of the revenue expenditure items shown in Annex 3 summary of revenue including the total of the Parish/Town Council precepts;

**7(b)** is the total of the revenue income items shown in Annex 3;

**7(c)** is the difference between the revenue expenditure and income as shown in Annex 3 (in simple terms it represents the net budget requirement of the District Council plus Parish and Town Council precepts);

**7(d)** is the figure in Annex 3 for Exchequer support from the Government to the General Fund together with a transfer of surpluses from the Collection Fund;

**7(e)** is obtained by dividing 7(d) by the Council Tax Base; this represents the average Band 'D' Council Tax for the District and Parish/Town Councils only;

**7(f)** as shown in Annex 3 is the total of Parish/Town Council precepts; and

**7(g)** represents the equivalent of dividing 7(f) by the Council Tax Base, the resulting figure being deducted from the figure shown in 7(e); this provides the average Band 'D' Council Tax for the District Council only.

38. This process culminates in the figures shown in Annex 6, which are the Council Tax amounts for the District Council and the Parish/Town Councils for each valuation band for 2006/07. To these amounts are added Council Tax figures supplied by the major precepting authorities and which are further summarised as the total Council Tax due for each valuation band in Part B of Annex 7.

39. Annex 7 relating to the precepts of various parts of the District will be tabled at the meeting.

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CONTINUING SERVICES BUDGET - GROWTH / (SAVINGS) LIST

Portfolio	Service	Original					Annex 1				
		2005/06 £000's	2005/06 Revised £000's	2006/07 Estimate £000's	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's				
People First	Members Allowances- Spec Resp	36	36	18 *	24	24					
	Members Allowances- Basic			4 *	19						
	Members Allowances- Spec Resp Chair Scrutiny Panels				4						
	Members Superannuation Employers Costs	1	1	9 ***							
	Member Electronic Services (Trans from IEG)		10	5 ***							
	Member Electronic Services Training			2 ***							
	Car Hire/ Civic Awards		(79)								
	Top Management Structure staff savings	(85)									
	A form envelopes	2	2								
	Additional postage re canvassing	1	7	11 ***							
	Changes in arrangements			9 ***							
	Changes in arrangements	2	4								
	Operational Budget		25	14 *							
	Scrutiny Support Officer- new post										
	<b>Total People First</b>		<b>(18)</b>	<b>(8)</b>	<b>72</b>	<b>47</b>	<b>24</b>	<b>0</b>			
	Community Wellbeing	Free local travel for over 60s			582 ***						
		Transport For London Free Travel	10	55							
		Statutory County wide scheme - Bus Permits		(40)							
		Statutory County wide scheme - Postage		2							
		New Arrangements - staff costs	15	15							
New Arrangements - Additional income		(52)	(52)								
Increases to Various Grants		6	6								
Furniture Exchange Scheme		16	16								
Homestart rent				3 ***							
Transfer of Mini Buses to Donors				(7) ***							
Community Support Officers		90	70	20 *							
Crime Reduction Assistant- Permanent F/T				17 ***							
Ant Social Behaviour Co-ordinator - Permanent F/T					27						
Graffiti Removal			8	12 ***							
Additional Resources				3 ***							
Emergency Planning Officer- new post		30	22								
New Equipment			8								
EP officer Op set up costs-Airwave Licence & mtce		2	2								
EP officer Op set up costs-Running expenses		5	5								
<b>Total Community Wellbeing</b>		<b>122</b>	<b>117</b>	<b>630</b>	<b>27</b>						

**CONTINUING SERVICES BUDGET - GROWTH / (SAVINGS) LIST**

Portfolio	Service	Original	Revised	Estimate	Estimate	Estimate	Estimate	Annex 1	
		2005/06 £000's	2005/06 £000's	2006/07 £000's	2007/08 £000's	2008/09 £000's	2009/10 £000's		
Finance and Performance Management	Local Taxation	(3)	(10)						
	Local Taxation	(40)	(40)	(50) ***					
	Local Taxation			20 ***					
	Finance Miscellaneous			(114) ***					
	Cashiers	9	9						
	Housing Benefits	(9)							
	Housing Benefits	(5)							
	Housing Benefits	(11)							
	Housing Benefits	43		15 ***					
	Insurance Premiums		22						
	Investment Income	(300)	(190)	15 ***					
	Brooker Road Indust Estate	(3)	(302)	(8) ***					
	Oakwood Hill Industial Estate		(33)	(17) ***					
	Oakwood Hill Work Shop Units		7						
	Langston Road Industial Estate	(26)	(26)						
	David Lloyd Centre		7						
	Unappropriated Buildings	(16)	(16)						
	District Audit	(25)	14						
	Energy Sites	1	2						
			<b>(385)</b>	<b>(556)</b>	<b>(139)</b>				
	<b>Total Finance and Performance Management</b>								
	Corporate Support Services	Finance General Admin							
		Local Land Charges		100	(15) ***				
Local Land Charges			25						
Legal Services			20						
Local Land Charges			10						
Car Leasing			(10)	(10) ***					
Office Accommodation			2	4 ***					
Office Accommodation				2 ***					
Office Accommodation				11 ***					
Legal & General Admin			(20)						
Democratic Services		1	1						
ICT				(15) ***					
IEG		170	110	60 *					
IEG		15	15	18 *					
ICT		10		10 *					
ICT				18 ***					
Energy Sites	28	34	38 *						
		<b>224</b>	<b>287</b>	<b>121</b>					
<b>Total Corporate Support Services</b>									



CONTINUING SERVICES BUDGET - GROWTH / (SAVINGS) LIST

Portfolio	Service	Original		Revised		Estimate		Estimate		Estimate	
		2005/06 £000's	2005/06 £000's	2005/06 £000's	2006/07 £000's	2007/08 £000's	2008/09 £000's	2009/10 £000's			
Housing	Homelessness	10	10								
	Housing Strategy	5	5								
	Private Sector Housing			25 ***							
	Private Sector Housing	26	18	13 *							
	<b>Total Housing</b>	<b>41</b>	<b>33</b>	<b>38</b>							
Leisure	Leisure Management	(30)	(51)	(152) ***							
	Leisure Management	40	153								
	Leisure Services			(66) ***							
	North Weald Airfield	(13)	(39)								
	North Weald Airfield	10	10								
	Energy Sites	38	61								
	<b>Total Leisure &amp; Health</b>	<b>35</b>	<b>134</b>	<b>(218)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Environmental Protection	Waste Management	46	46	139 ***							
	Waste Management	8	8								
	Waste Management	19	19								
	Street Cleansing		17	3 ***							
	Pollution Control			17 **	11	7					
	Pollution Control	25	25	25 *							
		<b>Total Environmental Protection</b>	<b>98</b>	<b>115</b>	<b>184</b>	<b>11</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Planning & Economic Development	Tourism										
	Planning Services		20	76 ***		5					
	Planning Services			(18) ***							
	Development Control	(68)	(68)								
	Forward Planning		7								
	Conservation Policy	19	19								
	<b>Total Planning &amp; Economic Development</b>	<b>(49)</b>	<b>(22)</b>	<b>58</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
Civil Engineering & Maintenance	Off Street Car Parking	(25)	(16)								
	Off Street Car Parking	25	25								
	Highways	(70)									
	Off Street Car Parking			20 ***							
	Energy Sites	6	9	7 ***							
	Building Services										
	<b>Total Civil Engineering &amp; Maintenance</b>	<b>(64)</b>	<b>18</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
	<b>Total CSB</b>	<b>4</b>	<b>118</b>	<b>773</b>	<b>90</b>	<b>31</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

Key:

\* Items that were originally part of the 2005/06 budget but have slipped.

\*\* Items that were part of the 2005/06 budget cycle but related to future years.

\*\*\* New items put forward during the 2006/07 budget cycle.

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DISTRICT DEVELOPMENT FUND		Original	Revised	Estimate	Estimate	Estimate	Estimate
Portfolio	Service	2005/06 £000's	2005/06 £000's	2006/07 £000's	2007/08 £000's	2008/09 £000's	2009/10 £000's
<b>People First</b>	Corporate Policy Making	10	10	10	**		
	Corporate Policy Making		15	30	***		
	Public Relations	31	(40)	31	*		
	Elections						
	Dev of Community Strategy-consulting & printing						
	Top Mgt Structure Salary Increases						
	Improvements to Main Reception Area						
	No District Elections by Thirds in 2005/06						
	<b>Total People First</b>	<b>41</b>	<b>(15)</b>	<b>71</b>			
<b>Community Wellbeing</b>	Business Continuity Plans	30					
	Transport for London - additional costs		23				
	Anti Social Behaviour Officer	25	45				
	HO Grant re Anti Social Behaviour Officer	(25)	(25)				
	Furniture Exchange Scheme	1	1				
	New Arrangements - Additional income- first year	(42)	(50)				
	<b>Total Community Wellbeing</b>	<b>(11)</b>	<b>(6)</b>				
<b>Finance and Performance Management</b>	New revenues and benefits system		31	37	*		
	Finance System Outstanding Commitments	30	10	(52)	***		
	Performance Reward Grant						
	Potential Central Support Savings (One off costs)			56	***		
	Implementation of Risk Management Strategy		16				
	Property Management System	15	2				
	Consultants Fees- Britania Sports Ground						
	Langston Road Industrial Estate- Development Proposals						
	Housing Benefit Admin Grant (New Formula)	(126)	(116)				
	Grant - Verification Framework	(38)	(38)				
	Grant-Admin- Welfare Reforms						
	Welfare Reform Start up costs		78				
	Electronic Document management	15	15				
	Rent Allowances		35				
	Council Tax		25				
	HRA Rent Rebates		109				
	Introduce E Billing	10					
	<b>Total Finance and Performance Management</b>	<b>(94)</b>	<b>120</b>	<b>(29)</b>			

DISTRICT DEVELOPMENT FUND		Original 2005/06 £000's	Revised 2005/06 £000's	Estimate 2006/07 £000's	Estimate 2007/08 £000's	Estimate 2008/09 £000's	Estimate 2009/10 £000's
Portfolio	Service						
<b>Corporate support services and IT</b>	Payroll/HR		9				
	Legal Services		4	7 *			
	Legal Services		6	11 *			
	Legal Services	20	49				
	Legal Services	50	26	24 *			
	Local Land Charges	50	25				
	Human Resources		(150)				
	Legal Services		9				
	Office Accommodation			8 *			
	Office Accommodation		27				
	Office Accommodation		6				
	Office Accommodation	42	48	112 **	33	8	13
	Office Accommodation	50		50 *			
	Office Accommodation	8					
	Office Accommodation		30				
	ICT		8				
	ICT		65				
	ICT		(110)				
	ICT		13				
	WEBSITE			16			
Mobile Phones			1				
			4				
<b>Total Corporate Support Services</b>		<b>123</b>	<b>191</b>	<b>212</b>	<b>33</b>	<b>8</b>	<b>13</b>
<b>Housing</b>	Homelessness	75					
	Private Sector Housing		75	9 ***	9		
<b>Total Housing</b>		<b>75</b>	<b>75</b>	<b>9</b>	<b>9</b>		

DISTRICT DEVELOPMENT FUND		Original	Revised	Estimate	Estimate	Estimate	Estimate
Portfolio	Service	2005/06 £000's	2005/06 £000's	2006/07 £000's	2007/08 £000's	2008/09 £000's	2009/10 £000's
Leisure	Ongar Leisure Centre	(109)	(109)				
	Leisure Management	300	153	513 **	160		
	Ongar Leisure Centre	40	40				
	Community Development	23	23				
	Leisure Management		7				
	LLC Development	39	56				
	North Weald Airfield		5				
	North Weald Airfield		54				
	North Weald Airfield		(30)				
	Museum			10 ***			
	Community & Culture	100	107				
	Community & Culture	(100)	(107)				
	Arts Programme	30	4	46 **	20	5	
	Arts Programme	(30)	(4)	(46) **	(20)	(5)	
	Sports Development	24	24	18 **			
	Sports Development	(24)	(24)	(18) **			
	Sports Development	30	30	30 **	30		
	Sports Development	(30)	(30)	(30) **	(30)		
	Youth Strategy	20					
	Youth Strategy	(20)					
<b>Total Leisure &amp; Health</b>		<b>293</b>	<b>199</b>	<b>523</b>	<b>160</b>	<b>0</b>	
Environmental	Air Quality	3	3				
	Waste Management	64	64	159 ***	106	53	
	Waste Management		2				
	Waste Management	(7)	(87)				
	Waste Management	(41)	(41)	(53) ***	56		
	Waste Management	41	41	33 ***	(56)		
	Waste Management		47	16 ***			
	Waste Management	8	8	7 **			
	Waste Management		110	20 ***		4	1
	Pollution Control						
<b>Total Environmental Protection</b>		<b>68</b>	<b>147</b>	<b>182</b>	<b>106</b>	<b>57</b>	<b>1</b>

DISTRICT DEVELOPMENT FUND		Original	Revised	Estimate	Estimate	Estimate	Estimate	
Portfolio	Service	2005/06 £000's	2005/06 £000's	2006/07 £000's	2007/08 £000's	2008/09 £000's	2009/10 £000's	
Planning & Economic Development	Development Control	50	166					
	Enforcement			24 *				
	Forward Planning	283	70	237 *				
	Enforcement			122 ***				
	Forward Planning	25	17	25 **	8			
	Development Control		100					
	Development Control	35						
	Planning Services	34	30	19 *	15			
	Planning Services	49	42	119 *	10			
	Planning Services	(49)	(49)	(33) *				
	Planning Services		139	39 **				
	Planning Services		(139)	(39) **				
	Planning Services			32 *				
	Building Control			(37)				
	Building Control			37				
		<b>Total Planning &amp; Economic Development</b>	<b>427</b>	<b>376</b>	<b>545</b>	<b>33</b>		
Civil Engineering & Maintenance	Highways		145	42 ***				
	Land Drainage			50 ***	50			
	Land Drainage			(50) ***	(50)			
	Land Drainage			100 ***	100	90		
	Civil Engineering Group		3					
	Grounds Maintenance		42					
	Grounds Maintenance		(12)					
	Off Street Parking		9					
	Highways		35					
	Highways		1					
		<b>Total Civil Engineering &amp; Maintenance</b>	<b>0</b>	<b>223</b>	<b>142</b>	<b>100</b>	<b>90</b>	
		<b>Total Portfolio District Development Fund</b>	<b>922</b>	<b>1,310</b>	<b>1,655</b>	<b>441</b>	<b>155</b>	<b>14</b>
	<b>Other Items</b>							
	Reimbursement of Highways Residual Costs		(350)	(233) ***	(117)			
	Transfer from Usable Capital Receipts (Commutation Adjustment)		(270)	(226) ***	(215)			
	Local Authority Business Growth Incentives Scheme		(475)	(200) ***				
	<b>Total District Development Fund</b>	<b>922</b>	<b>215</b>	<b>996</b>	<b>109</b>	<b>155</b>	<b>14</b>	

DISTRICT DEVELOPMENT FUND		Original		Revised		Estimate		Estimate		Estimate	
Portfolio	Service	2005/06 £000's	2005/06 £000's	2005/06 £000's	2006/07 £000's	2007/08 £000's	2008/09 £000's	2009/10 £000's			
	People First	41	(15)	71							
	Community Wellbeing	(11)	(6)								
	Finance and Performance Management	(94)	120	(29)							
	Corporate Support Services	123	191	212	33	8	13				
	Housing	75	75	9							
	Leisure & Health	293	199	523	160						
	Environmental Protection	68	147	182	106	57	1				
	Planning & Economic Development	427	376	545	33						
	Civil Engineering & Maintenance		223	142	100	90					
	Other Items		(1,095)	(659)	(332)						
		<b>922</b>	<b>215</b>	<b>996</b>	<b>109</b>	<b>155</b>	<b>14</b>				

**Key:**

\* Items that were originally part of the 2005/06 budget but have slipped.

\*\* Items that were part of the 2005/06 budget cycle but related to future years.

\*\*\* New items put forward during the 2006/07 budget cycle.

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## REVENUE EXPENDITURE, INCOME AND FINANCING

2005/06 ORIGINAL ALL REVENUE ITEMS £	2005/06 REVISED ALL REVENUE ITEMS £		GENERAL FUND ACCOUNT £	2006/07 ORIGINAL HOUSING REVENUE ACCOUNT £	ALL REVENUE ITEMS £
<b>Gross Expenditure</b>					
2,677,870	2,744,640	People First	4(a) 3,138,190	0	3,138,190
1,426,730	1,483,690	Community Wellbeing	4(b) 2,103,300	0	2,103,300
30,836,400	31,858,610	Finance & Performance Management	4(c) 32,374,630	0	32,374,630
537,500	489,330	Corporate Support Services	4(d) 479,030	0	479,030
51,799,890	53,321,500	Housing	4(e) 2,363,130	54,831,000	57,194,130
9,597,260	9,064,460	Leisure	4(f) 6,586,980	0	6,586,980
3,209,100	2,837,040	Civil Engineering & Maintenance	4(g) 2,946,000	0	2,946,000
3,599,610	3,960,610	Planning & Economic Development	4(h) 4,160,800	0	4,160,800
5,774,190	5,969,420	Environmental Protection	4(i) 6,421,050	0	6,421,050
0	168,280	Internal Trading Organisations	4(j) 150,000	0	150,000
<b>109,458,550</b>	<b>111,897,580</b>	<b>Total Expenditure on Services</b>	<b>60,723,110</b>	<b>54,831,000</b>	<b>115,554,110</b>
(35,246,920)	(37,120,460)	Asset Management Revenue Account	(3,914,520)	(35,698,000)	(39,612,520)
2,366,821	2,366,821	Precepts Paid to Parish Councils	2,582,129	0	2,582,129
<b>76,578,451</b>	<b>77,143,941</b>	<b>Total Gross Expenditure</b>	<b>59,390,719</b>	<b>19,133,000</b>	<b>78,523,719</b>
<b>Gross Income</b>					
29,389,210	29,925,770	Government Subsidies	30,101,840	0	30,101,840
20,727,000	21,216,000	Rents from Dwellings	0	22,157,000	22,157,000
4,777,680	4,948,160	Miscellaneous Rents, Trading Operations etc.	2,680,020	2,409,000	5,089,020
9,414,530	8,879,890	Fees and Charges	5,127,080	1,598,000	6,725,080
49,570	54,240	Interest on Mortgages and Investments	26,050	15,000	41,050
663,270	1,286,070	Grants and Reimbursements by other Bodies	806,960	0	806,960
<b>65,021,260</b>	<b>66,310,130</b>	<b>Total Operational Income</b>	<b>38,741,950</b>	<b>26,179,000</b>	<b>64,920,950</b>
(270,986)	(736,586)	Contribution from/(to) Revenue Reserves	(389,964)	417,000	27,036
(939,000)	(243,000)	FRS 17 Adjustment	(402,000)	0	(402,000)
922,000	160,000	Contribution from/(to) District Development Fund	996,000	0	996,000
(150,000)	(150,000)	Contribution from/(to) Other Reserves	(150,000)	0	(150,000)
(4,655,300)	(4,847,080)	Contribution from/(to) Capital Reserves	2,214,510	(7,463,000)	(5,248,490)
<b>59,927,974</b>	<b>60,493,464</b>	<b>Total Gross Income</b>	<b>41,010,496</b>	<b>19,133,000</b>	<b>60,143,496</b>
<b>16,650,477</b>	<b>16,650,477</b>	<b>To be met from Government Grants and Local Taxation</b>	<b>18,380,223</b>	<b>0</b>	<b>18,380,223</b>
<b>Financed by:</b>					
3,799,115	3,799,115	Revenue Support Grant			1,401,932
3,500,111	3,500,111	Distribution from Non-Domestic Rate Pool			7,231,475
34,000	34,000	Collection Fund Adjustment			5,000
<b>7,333,226</b>	<b>7,333,226</b>	<b>Exchequer Support and Collection Fund Surpluses</b>	<b>7d</b>		<b>8,638,407</b>
6,950,430	6,950,430	District Precept			7,159,687
2,366,821	2,366,821	Parish Council Precepts	<b>7f</b>		2,582,129
<b>16,650,477</b>	<b>16,650,477</b>	<b>Total Financing</b>			<b>18,380,223</b>

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## People First

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Stephen Barnes

	2005/06 Original £	2005/06 Revised £	Revenue £	Expenditure £	2006/07 Original £
	255,090	205,660		Elections	288,660
	1,684,220	1,748,020		Corporate Activities	2,046,910
	1,109,860	1,095,370		Member Activities	1,234,320
	42,850	82,580		Local Council Liaison	94,050
	151,380	162,350		Customer Services	150,890
	441,120	408,750		Public Relations	467,920
	3,684,520	3,702,730		<b>Total Expenditure</b>	4,282,750
	1,006,650	958,090		Income from Internal Charges	1,144,560
	2,677,870	2,744,640		<b>Net Expenditure (see Annex 3)</b>	3,138,190
				<b>Service Generated Income</b>	
	-	-		Government Subsidies	
	-	-		Rents from Dwellings	
	-	-		Miscellaneous Rents, Trading Operations etc	
	3,010	3,280		Fees and Charges	3,360
	-	-		Interest on Mortgages and Investments	
	3,000	3,000		Grants and Reimbursements by other Bodies	3,000
	6,010	6,280		<b>Total Income</b>	6,360
	2,671,860	2,738,360		<b>To be met from Government Grant and Local Taxation</b>	3,131,830
	-	-		<b>Capital Expenditure (see Annex 5)</b>	-

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## Community Wellbeing

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Caroline Pond

2005/06 Original £	2005/06 Revised £	Revenue Expenditure	2006/07 Original £
159,550	137,490	Emergency Planning	151,930
367,020	364,360	Voluntary Services	386,210
327,810	358,590	Safer Communities	378,750
363,910	407,570	Travel Schemes	953,800
208,440	215,680	Regulatory Services	232,610
1,426,730	1,483,690	<b>Total Expenditure</b>	2,103,300
-	-	Income from Internal Charges	-
1,426,730	1,483,690	<b>Net Expenditure (see Annex 3)</b>	2,103,300
		<b>Service Generated Income</b>	
-		Government Subsidies	
-		Rents from Dwellings	
8,950	8,950	Miscellaneous Rents, Trading Operations etc	8,950
218,380	234,580	Fees and Charges	187,260
-		Interest on Mortgages and Investments	
35,000	35,000	Grants and Reimbursements by other Bodies	10,250
262,330	278,530	<b>Total Income</b>	206,460
1,164,400	1,205,160	<b>To be met from Government Grant and Local Taxation</b>	1,896,840
-		<b>Capital Expenditure (see Annex 5)</b>	-

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## Finance &amp; Performance Management

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor John Knapman

	2005/06 Original £	2005/06 Revised £	Revenue Expenditure £	2006/07 Original £
	28,835,950	29,582,260	Housing Benefits	29,825,290
	1,423,810	1,468,280	Local Taxation	1,556,140
	741,510	680,520	Land & Property	768,220
	1,077,140	2,015,590	Other Activities	2,180,710
	2,176,830	2,203,440	Financial Services	2,381,570
	1,070,850	1,035,580	Land & Property Services	880,310
	338,280	323,070	Performance Management	331,040
	35,664,370	37,308,740	<b>Total Expenditure</b>	37,923,280
	4,827,970	5,450,130	Income from Internal Charges	5,548,650
	30,836,400	31,858,610	<b>Net Expenditure (see Annex 3)</b>	32,374,630
			<b>Service Generated Income</b>	
	28,671,570	29,194,130	Government Subsidies	29,426,830
	1,051,930	1,068,650	Rents from Dwellings	1,095,750
	317,000	436,230	Miscellaneous Rents, Trading Operations etc	491,320
	-	-	Fees and Charges	
	-	-	Interest on Mortgages and Investments	
	-	-	Grants and Reimbursements by other Bodies	
	30,040,500	30,699,010	<b>Total Income</b>	31,013,900
	795,900	1,159,600	<b>To be met from Government Grant and Local Taxation</b>	1,360,730
	484,000	180,000	<b>Capital Expenditure (see Annex 5)</b>	290,000

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## Corporate Support Services &amp; I.T.

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Stephen Metcalfe

2005/06 Original £	2005/06 Revised £	Revenue Expenditure	2006/07 Original £
1,766,860	1,743,190	Legal & Administration Services	1,802,150
1,760,870	1,648,860	Other Support Services	1,883,170
2,234,660	2,105,320	Accommodation	2,285,350
1,689,250	1,793,440	Information Communication Technology	2,076,600
373,180	374,380	Telephones	410,550
82,370	77,340	Website	82,550
		<b>Total Expenditure</b>	
7,907,190	7,742,530		8,540,370
		Income from Internal Charges	
7,369,690	7,253,200		8,061,340
		<b>Net Expenditure (see Annex 3)</b>	
537,500	489,330		479,030
		<b>Service Generated Income</b>	
-		Government Subsidies	
-		Rents from Dwellings	
-		Miscellaneous Rents, Trading Operations etc	
564,300	447,160	Fees and Charges	456,510
-		Interest on Mortgages and Investments	
-		Grants and Reimbursements by other Bodies	
		<b>Total Income</b>	
564,300	447,160		456,510
		<b>To be met from Government Grant and Local Taxation</b>	
-	26,800		22,520
		<b>Capital Expenditure (see Annex 5)</b>	
501,000	809,000		1,772,000

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## Leisure

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Chris Whitbread

	2005/06 Original £	2005/06 Revised £	Revenue Expenditure £	2006/07 Original £
	6,319,150	5,919,040	Leisure Facilities	3,114,030
	769,160	723,470	Arts, Museum and Library	868,070
	651,720	613,870	Parks and Grounds	679,120
	1,018,120	1,172,170	North Weald Centre	1,175,460
	839,110	635,910	Sports Development and Miscellaneous	750,300
	9,597,260	9,064,460	<b>Net Expenditure (see Annex 3)</b>	6,586,980
			<b>Service Generated Income</b>	
	-		Government Subsidies	
	-		Rents from Dwellings	
	1,229,800	1,258,560	Miscellaneous Rents, Trading Operations etc	1,261,570
	3,329,720	2,445,810	Fees and Charges	258,260
	-		Interest on Mortgages and Investments	
	196,000	26,550	Grants and Reimbursements by other Bodies	177,620
	4,755,520	3,730,920	<b>Total Income</b>	1,697,450
	4,841,740	5,333,540	<b>To be met from Government Grant and Local Taxation</b>	4,889,530
	1,303,000	260,000	<b>Capital Expenditure (see Annex 5)</b>	552,000

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## Civil Engineering &amp; Maintenance

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Don Spinks

	2005/06 Original £	2005/06 Revised £	Revenue Expenditure	2006/07 Original £
	1,354,180	959,350	Highways	867,860
	1,145,540	1,153,400	Car & Lorry Parking	1,183,570
	709,380	724,290	Land Drainage & Sewerage	894,570
	3,209,100	2,837,040	<b>Net Expenditure (see Annex 3)</b>	2,946,000
			<b>Service Generated Income</b>	
	-		Government Subsidies	
	-		Rents from Dwellings	
	22,000	23,000	Miscellaneous Rents, Trading Operations etc	22,000
	1,419,000	1,553,090	Fees and Charges	1,555,600
	-		Interest on Mortgages and Investments	
	-		Grants and Reimbursements by other Bodies	50,000
	1,441,000	1,576,090	<b>Total Income</b>	1,627,600
	1,768,100	1,260,950	<b>To be met from Government Grant and Local Taxation</b>	1,318,400
	1,342,000	634,000	<b>Capital Expenditure (see Annex 5)</b>	4,501,000

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## Planning &amp; Economic Development

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Robert Glozier

	2005/06 Original £	2005/06 Revised £	Revenue Expenditure	2006/07 Original £
	162,820	133,420	Economic Development	150,090
	15,990	15,960	Tourism	16,340
	12,250	17,250	Bus Shelters	18,060
	224,730	218,400	Countrycare	240,720
	197,510	207,220	Conservation Policy	216,590
	574,490	455,180	Forward Planning	718,140
	2,411,820	2,913,180	Regulatory Services	2,800,860
	3,599,610	3,960,610	<b>Net Expenditure (see Annex 3)</b>	4,160,800
			<b>Service Generated Income</b>	
	-		Government Subsidies	
	-		Rents from Dwellings	
	-		Miscellaneous Rents, Trading Operations etc	
	1,074,810	1,163,430	Fees and Charges	1,149,560
			Interest on Mortgages and Investments	
	107,560	140,550	Grants and Reimbursements by other Bodies	65,410
			<b>Total Income</b>	1,214,970
	1,182,370	1,303,980		
	2,417,240	2,656,630	<b>To be met from Government Grant and Local Taxation</b>	2,945,830
	-	-	<b>Capital Expenditure (see Annex 5)</b>	-

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## Environmental Protection

## Portfolio Programme 2006/07

## Portfolio Holder - Councillor Derek Jacobs

	2005/06 Original £	2005/06 Revised £	Revenue Expenditure	2006/07 Original £
	1,257,540	1,303,570	Environmental Health	1,392,890
	4,422,750	4,598,170	Waste Collection & Street Cleansing	4,932,470
	93,900	67,680	Environmental Initiatives	95,690
	5,774,190	5,969,420	<b>Net Expenditure (see Annex 3)</b>	6,421,050
			<b>Service Generated Income</b>	
	-		Government Subsidies	
	-		Rents from Dwellings	
	-		Miscellaneous Rents, Trading Operations etc	
	703,450	731,820	Fees and Charges	716,390
	-		Interest on Mortgages and Investments	
	308,120	242,380	Grants and Reimbursements by other Bodies	53,750
	1,011,570	974,200	<b>Total Income</b>	770,140
	4,762,620	4,995,220	<b>To be met from Government Grant and Local Taxation</b>	5,650,910
	871,000	808,000	<b>Capital Expenditure (see Annex 5)</b>	2,082,000

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## Portfolio Programme 2006/07

## Internal Trading Organisations

	2005/06 Original £	2005/06 Revised £	Revenue Expenditure	2006/07 Original £
	466,590	492,230	Housing Maintenance	470,740
	-	-	Fleet Operations	-
	-	-		
	466,590	492,230	<b>Total Expenditure</b>	470,740
		323,950	Income from Internal Charges	
		168,280	<b>Net Expenditure (see Annex 3)</b>	150,000
			<b>Service Generated Income</b>	
			Government Subsidies	-
			Rents from Dwellings	-
			Miscellaneous Rents, Trading Operations etc	-
		168,280	Fees and Charges	150,000
			Interest on Mortgages and Investments	
			Grants and Reimbursements by other Bodies	
			Contribution from/(to) DSO Reserves	
		168,280	<b>Total Income</b>	150,000
			<b>To be met from Government Grant and Local Taxation</b>	
				-
			<b>Capital Expenditure (see Annex 5)</b>	
				-

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## Portfolio Programme 2006/07

## Non Service Budgets

	2005/06 Original	2005/06 Revised		2006/07 Original		
	£	£	Revenue Expenditure	General Fund £	Housing Revenue £	Total £
	(29,570)	(27,240)	Discounts and Interest on Investments	(26,050)		(26,050)
	(35,246,920)	(825,000)	Non Portfolio Related Income	(433,000)		(433,000)
	4,655,300	(37,120,460)	Asset Management Revenue Account	(3,914,520)	(35,698,000)	(39,612,520)
		4,847,080	Contribution (from)/to Capital Reserves	(2,214,510)	7,463,000	5,248,490
	(30,621,190)	(33,125,620)		(6,588,080)	(28,235,000)	(34,823,080)
	24,893,000	27,062,000	Transferred to Housing Summary	-	28,235,000	28,235,000
	(5,728,190)	(6,063,620)		(6,588,080)	-	(6,588,080)
	27,986	328,586	Contribution (from)/to Revenue Reserves			389,964
	939,000	243,000	FRS 17 Adjustment			402,000
	150,000	150,000	Contribution (from)/to Other Reserves			150,000
	(922,000)	(160,000)	Contribution from District Development Fund			(996,000)
	(5,533,204)	(5,502,034)	<b>Reduction in Amount to be met from Government Grant and Local Taxation</b>			(6,642,116)

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## Portfolio Programme 2006/07

## Capital Programme

2005/06 Original		2005/06 Revised		2006/07 Original		Total	
General Fund	Housing Revenue	General Fund	Housing Revenue	General Fund	Housing Revenue	General Fund	Total
£	£	£	£	£	£	£	£
-	-	-	-	-	-	-	-
484,000	-	180,000	-	290,000	-	290,000	290,000
501,000	484,000	809,000	180,000	1,772,000	-	1,772,000	1,772,000
1,052,000	501,000	809,000	809,000	1,210,000	7,870,000	9,080,000	9,080,000
1,303,000	8,859,000	510,000	7,539,000	552,000	-	552,000	552,000
1,342,000	1,303,000	260,000	260,000	4,501,000	-	4,501,000	4,501,000
-	1,342,000	634,000	634,000	2,082,000	-	2,082,000	2,082,000
871,000	871,000	808,000	808,000	-	-	-	-
-	-	-	-	-	-	-	-
5,553,000	8,859,000	3,201,000	7,539,000	10,407,000	7,870,000	18,277,000	18,277,000
95,000	(36,000)	-	-	-	-	-	-
6,813,000	6,813,000	6,664,000	6,664,000	7,463,000	7,463,000	7,463,000	7,463,000
5,458,000	2,082,000	3,201,000	875,000	10,407,000	407,000	10,814,000	10,814,000
4,646,000	2,082,000	2,615,000	845,000	9,198,000	377,000	9,575,000	9,575,000
280,000	280,000	306,000	306,000	443,000	-	443,000	443,000
532,000	532,000	280,000	30,000	766,000	30,000	796,000	796,000
5,458,000	2,082,000	3,201,000	875,000	10,407,000	407,000	10,814,000	10,814,000

  

2005/06 Revised		2006/07 Original		Total	
General Fund	Housing Revenue	General Fund	Housing Revenue	General Fund	Total
£	£	£	£	£	£
10,740,000	7,539,000	10,407,000	7,870,000	20,616,000	18,277,000
Less:					
Capital Creditors (Net Movement)	-	-	-	-	-
Revenue Contributions to Capital	6,664,000	6,664,000	7,463,000	13,128,000	7,463,000
<b>To be met from Capital Resources</b>	<b>4,076,000</b>	<b>4,076,000</b>	<b>407,000</b>	<b>4,483,000</b>	<b>10,814,000</b>
<b>Financed by:</b>					
Capital Receipts	3,460,000	3,460,000	377,000	3,837,000	9,575,000
Government Grants	306,000	306,000	-	306,000	443,000
Other Grants	310,000	310,000	30,000	340,000	796,000
<b>Total Financing</b>	<b>4,076,000</b>	<b>4,076,000</b>	<b>407,000</b>	<b>4,483,000</b>	<b>10,814,000</b>

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COUNCIL TAX RATES FOR DISTRICT & PARISH/TOWN COUNCILS 2006/07

ANNEX 6

Authorities	Tax Base No.'s	Precept 2006/07	Council Tax Band D	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
		£	£	£	£	£	£	£	£	£	£
District Expenses	53140.9	7,159,687	134.73	89.82	104.79	119.76	134.73	164.67	194.61	224.55	269.46
Abbess, Berners and Beauchamp Roding	198.4	3,500	17.64	101.58	118.51	135.44	152.37	186.23	220.09	253.95	304.74
Buckhurst Hill	5116.3	353,000	69.00	135.82	158.46	181.09	203.73	249.00	294.28	339.55	407.46
Chigwell	5906.5	176,500	29.88	109.74	128.03	146.32	164.61	201.19	237.77	274.35	329.22
Epping Town	4942.0	325,000	65.76	133.66	155.94	178.21	200.49	245.04	289.60	334.15	400.98
Epping Upland	406.6	10,500	25.82	107.03	124.87	142.71	160.55	196.23	231.91	267.58	321.10
Fyfield	413.9	6,600	15.95	100.45	117.20	133.94	150.68	184.16	217.65	251.13	301.36
High Ongar	555.0	8,820	15.89	100.41	117.15	133.88	150.62	184.09	217.56	251.03	301.24
Lambourne	923.1	25,000	27.08	107.87	125.85	143.83	161.81	197.77	233.73	269.68	323.62
Loughton Town	12701.4	570,700	44.93	119.77	139.74	159.70	179.66	219.58	259.51	299.43	359.32
Matching	305.5	6,500	21.28	104.01	121.34	138.68	156.01	190.68	225.35	260.02	312.02
Morden, Bobbingworth and the Lavers	649.0	10,500	16.18	100.61	117.37	134.14	150.91	184.45	217.98	251.52	301.82
Nadon	2067.1	54,137	26.19	107.28	125.16	143.04	160.92	196.68	232.44	268.20	321.84
North Weald Bassett	2514.2	99,095	39.41	116.09	135.44	154.79	174.14	212.84	251.54	290.23	348.28
Ongar Town	2571.3	121,165	47.12	121.23	141.44	161.64	181.85	222.26	262.67	303.08	363.70
Roydon	1306.8	26,250	20.09	103.21	120.42	137.62	154.82	189.22	223.63	258.03	309.64
Sheering	1315.7	22,500	17.10	101.22	118.09	134.96	151.83	185.57	219.31	253.05	303.66
Stanford Rivers	352.2	10,200	28.96	109.13	127.31	145.50	163.69	200.07	236.44	272.82	327.38
Stapleford Abbotts	492.1	4,610	9.37	96.07	112.08	128.09	144.10	176.12	208.14	240.17	288.20
Stapleford Tawney	56.1	1,200	21.39	104.08	121.43	138.77	156.12	190.81	225.51	260.20	312.24
Theydon Bois	1942.5	60,053	30.92	110.43	128.84	147.24	165.65	202.46	239.27	276.08	331.30
Theydon Garnon	59.9	920	15.36	100.06	116.74	133.41	150.09	183.44	216.80	250.15	300.18
Theydon Mount	103.4	1,178	11.39	97.41	113.65	129.88	146.12	178.59	211.06	243.53	292.24
Waltham Abbey Town	8002.9	680,601	85.04	146.51	170.93	195.35	219.77	268.61	317.45	366.28	439.54
Willingale	239.0	3,600	15.06	99.86	116.50	133.15	149.79	183.08	216.36	249.65	299.58
<b>Town and Parish Total</b>	<b>53140.9</b>	<b>2,582,129</b>	<b>48.59</b>	<b>32.39</b>	<b>37.79</b>	<b>43.19</b>	<b>48.59</b>	<b>59.39</b>	<b>70.19</b>	<b>80.98</b>	<b>97.18</b>
<b>District, Town and Parish Total</b>	<b>53140.9</b>	<b>9,741,816</b>	<b>183.32</b>	<b>122.21</b>	<b>142.58</b>	<b>162.95</b>	<b>183.32</b>	<b>224.06</b>	<b>264.80</b>	<b>305.53</b>	<b>366.64</b>

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## GENERAL FUND FOUR YEAR FORECAST 2006/07 - 2009/10

ORIGINAL 2005/06	REVISED 2005/06		FORECAST 2006/07	FORECAST 2007/08	FORECAST 2008/09	FORECAST 2009/10
£'000	£'000	<b>NET REVENUE EXPENDITURE</b>	£'000	£'000	£'000	£'000
14,156	13,687	Continuing Services Budget	14,485	15,716	17,217	17,766
4	118	CSB - Growth Items	773	1,000	31	0
<hr/>			<hr/>			
14,160	13,805	Total C.S.B	15,258	16,716	17,248	17,766
922	1,310	One - off Expenditure	1,655	441	155	14
150	150	Contribution to/from Insurance reserve	150	150	150	150
<hr/>			<hr/>			
15,232	15,265	Total Net Operating Expenditure	17,063	17,307	17,553	17,930
-922	-1,310	Contribution to/from (-) DDF Balances	-1,655	-441	-155	-14
-26	329	Contribution to/from (-) Balances	390	-346	-377	-470
<hr/>			<hr/>			
14,284	14,284	Net Budget Requirement	15,798	16,520	17,021	17,446
<hr/> <hr/>			<hr/> <hr/>			
<b>FINANCING</b>						
6,887	6,887	Government Support (NNDR+RSG)	9,123	9,350	9,537	9,728
412	412	RSG Floor Gains/(-Losses)	-490	-189	-58	-12
<hr/>			<hr/>			
7,299	7,299	Total External Funding	8,633	9,161	9,479	9,716
6,951	6,951	District Precept	7,160	7,339	7,522	7,710
34	34	Collection Fund Adjustment	5	20	20	20
<hr/>			<hr/>			
14,284	14,284	To be met from Government Grants and Local Tax Payers	15,798	16,520	17,021	17,446
<hr/> <hr/>			<hr/> <hr/>			
	131.49	Band D Council Tax	134.73	138.10	141.55	145.09
		<b>Percentage Increase %</b>	2.46	2.50	2.50	2.50

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## GENERAL FUND FOUR YEAR FORECAST 2006/07 - 2009/10

REVISED 2005/06	FORECAST 2006/07	FORECAST 2007/08	FORECAST 2008/09	FORECAST 2009/10
£'000 <b>REVENUE BALANCES</b>	£'000	£'000	£'000	£'000
5,488 Balance B/forward	5,817	6,207	5,861	5,484
329 Surplus/Deficit(-) for year	390	-346	-377	-470
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
5,817 Balance C/Forward	6,207	5,861	5,484	5,014
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>DISTRICT DEVELOPMENT FUND</b>				
2,457 Balance B/forward	2,297	1,301	1,192	1,037
1,150 Transfer In	659	332	0	0
-1,310 Transfer Out	-1,655	-441	-155	-14
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
2,297 Balance C/Forward	1,301	1,192	1,037	1,023
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>CAPITAL FUND (inc Cap Receipts)</b>				
21,241 Balance B/forward	19,416	10,986	8,730	8,198
740 New Usable Receipts	718	713	690	678
895 New Transistional Usable Receipts	427	0	0	0
CR Used to Fund Capital Expenditure				
-895 - Transistional Relief Receipts	-927	-500	0	0
-2,565 - Other Capital Receipts	-8,648	-2,469	-1,222	-932
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
19,416 Balance C/Forward	10,986	8,730	8,198	7,944
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27,530 TOTAL BALANCES	18,494	15,783	14,719	13,981
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## Report on the Council's Prudential Indicators for 2006/07 to 2008/09 and the Treasury Management Strategy for 2006/07

### Recommendations;

1. The Council is recommended to adopt the prudential indicators and limits for 2006/07 to 2008/09 contained within the report. The main indicators are:

	2004/05 Actual	2005/06 Revised	2006/07 Estimated	2007/08 Estimated	2008/09 Estimated
Capital Expenditure	£10.842m	£10.740m	£18.277m	£9.932m	£5.638m
Capital financing requirement	£1.447m	£1.447m	£1.447m	£1.447m	£1.447m
Authorised limit for external debt	£3m	£3m	£3m	£3m	£3m
Operational boundary for external debt	£5m	£5m	£5m	£5m	£5m
Ratio of financing costs to net revenue stream – HRA	-7.15 %	-7.19 %	-6.88 %	-6.57 %	-6.57 %
Ratio of financing costs to net revenue stream – non-HRA	-7.61 %	-7.65 %	-7.32 %	-6.98 %	-6.98 %
Incremental impact of capital investment decisions on the Band D Council Tax	N/a	N/a	£0.00	£0.00	£0.00
Incremental impact of capital investment decisions on housing rents levels	N/a	N/a	£2.92	£1.62	£2.20

2. Approve the treasury management strategy for 2006/07, and the treasury prudential indicators;

Exposure to fixed/variable interest rates	2006/07 Upper	2007/08 Upper	2008/09 Upper
Limits on fixed interest rates	75%	75%	75%
Limits on variable interest rates	75%	75%	75%

Maturity Structure of fixed interest rate borrowing						
	2006/07		2007/08		2008/09	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%		0%		0%	
12 months to 2 years	0%		0%		0%	
2 years to 5 years	0%		0%		0%	
5 years to 10 years	0%		0%		0%	
10 years and above	0%		0%		0%	
Maximum principal sums invested > 364 days	£15 m		£15 m		£15 m	

3. Approve the investment strategy 2006/07 contained in the treasury management strategy, and the detailed criteria included within it, specifically approving:
- The criteria for specified investments
  - The criteria for non-specified investments

## INTRODUCTION

- 1 As Members are aware, the Local Government Act 2003 changed the rules surrounding capital finance. From 1 April 2004, the Council has had the ability to undertake “prudential borrowing” for capital purposes. The Prudential Code sets out a framework for self-regulation of capital spending and treasury management, which requires the maintenance of specified indicators to demonstrate that the chosen policies are being adhered to.
- 2 This report shows the Council’s prudential indicators for 2006/07 – 2008/09 and sets out the expected treasury operations for this period. It contains three key Council reporting requirements:
  - The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;
  - The treasury strategy in accordance with the CIPFA Code of Practice on Treasury Management;
  - The investment strategy (in accordance with the ODPM’s investment guidance).

The outturn for the prudential indicators set for 2004/05 was reported to Cabinet on 5 September 2005.

### The Prudential Code

- 3 The key objective of the Code is to ensure that capital investment plans are affordable, prudent and sustainable, or in exceptional circumstances, to demonstrate that there is danger of not ensuring this, so that timely remedial action can be taken.
- 4 The Code sets out a number of “Prudential Indicators” that the Council must adopt and monitor. The indicators are purely for internal use by the Council and are not to be used as comparators between councils, as any comparisons would be meaningless and potentially misleading. The prudential indicators are rather to support and demonstrate the results of local choice in a publicly accountable manner. As such the Code will underpin the Council’s Corporate Governance arrangements.
- 5 The primary change was that the former system of credit approvals (BCAs and SCAs) was abolished, leaving no restriction on capital investment (subject to Government reserve powers to restrict borrowing for national economic reasons). Instead, capital investment is supported through Supported Capital Expenditure (Revenue), which will include the single capital pot element (for the BCA portion) and a separate programme element (for the SCA portion).
- 6 Members’ involvement in the prudential indicator setting and monitoring process is essential in order that the Council can demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and that treasury decisions are taken in accordance with good practice.
- 7 To support capital investment decisions and demonstrate sound treasury management practice, the Prudential Code requires the Council to agree and monitor a minimum of seventeen prudential indicators. For housing authorities such as Epping Forest District Council these are separated for the HRA and non-HRA capital investment. The indicators cover prudence, capital expenditure, external debt, affordability and treasury management. They are listed and numbered below:

#### **Prudence**

- **P1** Net borrowing and the Capital Financing Requirement (CFR)

#### **Capital Expenditure**

- **P2** Estimates of capital expenditure (split between GF and HRA)

- **P3** Actual capital expenditure (split between GF and HRA)
- **P4** Estimates of the Capital Financing Requirement (for both GF and HRA)
- **P5** Actual Capital Financing Requirement (for both GF and HRA)

#### **External Debt**

- **P6** External debt: Authorised Limit
- **P7** External debt: Operational Boundary
- **P8** Actual external debt

#### **Affordability**

- **P9** Estimates of ratio of financing costs to net revenue stream (separate GF and HRA ratios)
- **P10** Actual ratio of financing costs to net revenue stream (separate GF and HRA ratios)
- **P11** Estimates of the incremental impact of capital investment decisions on the Council Tax
- **P12** Estimates of the incremental impact of capital investment decisions on housing rents

#### **Treasury Management**

- **P13** Adoption of the Treasury Management Code of Practice
- **P14** Interest rate exposures: fixed rates
- **P15** Interest rate exposures: variable rates
- **P16** Maturity structure of borrowing
- **P17** Total principal sum invested for any period longer than 364 days

- 8 Local indicators may be prepared if they aid interpretation, but for the purposes of this report the mandatory indicators alone have been calculated. After careful consideration of the matter, the Head of Finance has drawn the conclusion that additional local indicators would be of little practical value.

### **CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT INDICATORS**

- 9 One of the major changes introduced by the Code is the calculation of the Capital Financing Requirement (CFR). This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the level of capital expenditure in the year and the means by which it is financed.
- 10 The expected movement in the CFR over the next three years is dependent on the level of supported and unsupported capital expenditure decisions taken during the budgeting cycle. The unsupported element is the new capital expenditure freedom allowed under the Prudential Code. It is within this element that the Council has the freedom to enter into projects such as spend to save schemes (which may have previously been limited by the availability of credit approvals), or decisions to allocate additional resource from revenue to capital to enable service enhancements.
- 11 There are two main limiting factors on the Council's ability to undertake unsupported capital expenditure.
- Firstly, the Council itself must ensure that adequate revenue resources are available to support in full the implications of capital expenditure plans, including borrowing costs and running costs. In other words, the Council must be able to afford the full cost implications of the unsupported capital expenditure, including the revenue costs of running the finished project throughout its lifetime.
  - Secondly, central government has powers under the Local Government Act 2003 to restrict the borrowing and capital expenditure of either an individual council or all local authorities. These powers are intended to ensure that any individual council does not

undertake capital expenditure which central government assesses to be unaffordable, and that the total of all councils' plans do not jeopardise national economic policies. These powers have not been used to date.

- 12 The Council's expectations for the CFR over the next three financial years (Indicator P4) are highlighted in columns 4, 5 and 6 in Table 1 below, with the associated expectation for funding. The equivalent CFR actuals for 2004/05 (Indicator P5) and comparators for 2004/05 are shown for information purposes in columns 2 and 3 respectively. Included also are the related capital expenditure figures for each year, split between supported and unsupported spending, and the expected external debt for each year.

**Table 1: Capital expenditure programme and its effect on CFR**

	2004/05	2005/06	2006/07	2007/08	2008/09
<b>Capital Expenditure</b>	<b>Actual</b>	<b>Revised estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Supported Spend	1,288	862	0	0	0
Unsupported Spend	9,554	9,878	18,277	9,932	5,638
<b>Total Spend</b>	<b>10,842</b>	<b>10,740</b>	<b>18,277</b>	<b>9,932</b>	<b>5,638</b>
<b>Financed by:</b>					
Borrowing	0	0	0	0	0
Capital Receipts: Transitional Relief	2,195	895	927	500	0
Capital Receipts: Other	1,509	2,617	8,648	2,469	1,222
Capital Grants	451	564	1,239	210	210
Revenue	7,584	6,664	7,463	6,753	4,206
Total Financed	11,739	10,740	18,277	9,932	5,638
Total Unfinanced brought forward	-897	0	0	0	0
<b>Total Spend</b>	<b>10,842</b>	<b>10,740</b>	<b>18,277</b>	<b>9,932</b>	<b>5,638</b>
<b>Capital Financing Requirements</b>					
<b>CFR - Non Housing (P4 &amp; P5)</b>	<b>24,250</b>	<b>24,250</b>	<b>24,250</b>	<b>24,250</b>	<b>24,250</b>
<b>CFR - Housing (P4 &amp; P5)</b>	<b>-22,803</b>	<b>-22,803</b>	<b>-22,803</b>	<b>-22,803</b>	<b>-22,803</b>
<b>Total CFR</b>	<b>1,447</b>	<b>1,447</b>	<b>1,447</b>	<b>1,447</b>	<b>1,447</b>
Net Movement in CFR	0	0	0	0	0
<b>External Debt</b>					
Borrowing (PWLB)	0	0	0	0	0
Other Long Term Liabilities	0	0	0	0	0
Total Debt as at 31 March	0	0	0	0	0
Less debt transferred to other LAs	-635	-610	-585	-559	-534
<b>Borrowing less Transferred Debt</b>	<b>-635</b>	<b>-610</b>	<b>-585</b>	<b>-559</b>	<b>-534</b>

- 13 **Members are asked to approve the estimates of the CFR indicators P4 and P5 for the years 2005/06 to 2008/09 as highlighted in Table 1 above.**
- 14 A key risk of this indicator is that the level of estimates relating to sources of funding, such as capital receipts, may be subject to change over the years 2006/07 to 2008/09.
- 15 The total CFR figures in the table above indicate that Epping Forest will not need to use its new freedom to borrow to finance the capital schemes currently included in the approved Capital Programme over the next three years. The Council repaid its remaining debt with the PWLB on 29 March 2004 and is now officially debt free.
- 16 Table 2 below shows the approved Capital Programme analysed between the General Fund and HRA, and between each portfolio. Forecasts for 2006/07 to 2008/09 are highlighted in columns 4, 5 and 6 (Indicator P2). The actuals for 2004/05 (Indicator P3)

are shown for information purposes in column 2.

**Table 2: Forecast Capital Programme for 2004/05 to 2007/08**

Portfolio	2004/05 Actual £000	2005/06 Revised Forecast £000	2006/07 Estimated Forecast £000	2007/08 Estimated Forecast £000	2008/09 Estimated Forecast £000
Finance & Performance Management	0	180	290	350	0
Corporate Support Services & IT	447	809	1,772	1,587	515
Community Wellbeing	14	0	0	0	0
Leisure	345	260	552	50	50
Environmental Protection	99	808	2,082	0	0
Civil Engineering & Maintenance	306	634	4,501	162	337
Housing GF	387	510	1,210	1,000	500
<b>Total General Fund</b>	<b>1,598</b>	<b>3,201</b>	<b>10,407</b>	<b>3,149</b>	<b>1,407</b>
HRA	9,194	7,486	7,820	6,733	4,186
Housing DLO	50	53	50	50	50
<b>Total Housing Revenue Account</b>	<b>9,631</b>	<b>7,539</b>	<b>7,870</b>	<b>6,783</b>	<b>4,236</b>
<b>TOTAL</b>	<b>10,842</b>	<b>10,740</b>	<b>18,277</b>	<b>9,932</b>	<b>5,638</b>

- 17 **Members are asked to confirm their approval of the capital programme shown in Table 2 above, in line with the requirements of Prudential Indicators P2 and P3.**

**Comparison of the net borrowing position against CFR**

- 18 The first key control over the Council's activity is to ensure that over the medium term, net borrowing will be for capital purposes alone. The Council needs to ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for 2006/07 and the next two financial years.
- 19 Table 3 below shows the actual borrowing and investment position of Epping Forest as at 31 March 2005 and the estimated position at the close of the current financial year and the next three financial years.

**Table 3: Comparison of net borrowing against CFR**

	2004/05 Actual £000	2005/06 Revised £000	2006/07 Estimate £000	2007/08 Estimate £000	2008/09 Estimate £000
Gross Borrowing	0	0	0	0	0
Less debt transferred to other Las	-635	-610	-585	-559	-534
External Debt Less Transferred Debt	-635	-610	-585	-559	-534
Investments	-44,600	-43,000	-43,000	-40,000	-30,000
Net Borrowing (P1a)	-45,235	-45,610	-42,585	-34,559	-30,534
Total CFR (P1b)	1,447	1,447	1,447	1,447	1,447

- 20 The table illustrates that this Council is forecast to be a net lending authority up to the end of 2008/09, with investments exceeding borrowing by a figure (P1a) much higher than the Council's total CFR (P1b). Current projections indicate that the position will remain fairly constant given the anticipated level of capital receipt generation and the level of capital expenditure in the approved Capital Programme.
- 21 **Members are asked to agree that the Council has complied with the requirement of indicator P1 to keep net borrowing below the relevant CFR in 2004/05, and that no difficulties in this respect are envisaged for the financial years 2005/06 to 2008/09.**

### External Debt

- 22 Prudential Indicators P6 and P7 control the overall level of external debt:
- **The authorised limit (P6)** – This represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term even though it may not be sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. The authorized limit of £5m set below is affordable in the medium term; however, the Council's strategy at present is to maintain its debt-free status, and its treasury operations are aimed at avoiding any need for external borrowing.

**Table 4: The authorised limit for external debt (P6)**

	2005/06 (Revised) £'000	2006/07 (Estimate) £'000	2007/08 (Estimate) £'000	2008/09 (Estimate) £'000
Borrowing	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	5,000	5,000	5,000	5,000

- **The operational boundary (P7)** – This indicator is based on the probable maximum amount of external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

**Table 5: The operational limit for external debt (P7)**

	2005/06 (Revised) £'000	2006/07 (Estimate) £'000	2007/08 (Estimate) £'000	2008/09 (Estimate) £'000
Borrowing	3,000	3,000	3,000	3,000
Other long term liabilities	0	0	0	0
Total	3,000	3,000	3,000	3,000
Actual external debt (P8)	0	0	0	0

- 23 Actual external debt is shown in the final row of Table 5 above (Indicator P8) for information only.
- 24 **The Council is asked to approve the above authorised and operational limits in line with Indicators P6 and P7 respectively.**

### Affordability Prudential Indicators

- 25 In addition to the overall capital and control of borrowing indicators given above, prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council finances. The Council is asked to approve the following indicators:

### Ratio of financing costs to net revenue stream

- 26 This indicator aims to identify the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream. The ratios for Epping Forest given below are based on estimates of financing costs and net revenue streams including current commitments and proposals as per the budget report.

**Table 6: Ratio of financing costs to net revenue stream**

	<b>2004/05 Actual</b>	<b>2005/06 Revised estimate</b>	<b>2006/07 Estimated Forecast</b>	<b>2007/08 Estimated Forecast</b>	<b>2008/09 Estimated Forecast</b>
	%	%	%	%	%
HRA (P9 & P10)	-7.15	-7.19	-6.88	-6.57	-6.57
Non HRA (P9 & P10)	-7.61	-7.65	-7.32	-6.98	-6.98

- 27 The ratios are negative because the Council receives investment income and interest on the transferred debts, and no longer has debt financing costs. The proportion of the Council's total interest receivable which has been attributed to the HRA is based on the balance between the HRA and General Fund CFRs.
- 28 **Members are asked to set the ratio of capital financing costs to net revenue stream Indicators P9 and P10 at the levels highlighted in columns 4, 5 and 6 above.**

### Estimates of the incremental impact of capital investment decisions on the band D Council Tax

- 29 This indicator aims to identify the trend in the revenue cost of proposed changes in the capital programme and its impact on the Council Tax. The calculation is based on a comparison of the current Capital Programme to that agreed as part of the previous budget cycle. The figures below are based on the proportion of capital financing derived from revenue contributions. As this has not changed between the 2004/05 and 2005/06 capital programmes, the effect on the Council Tax is nil.

**Table 7: Incremental impact of capital investment decisions on the Band D Council Tax**

	<b>Proposed Budget 2006/07</b>	<b>Forward Projection 2007/08</b>	<b>Forward Projection 2008/09</b>
	£	£	£
Council Tax – Band D	0.00	0.00	0.00

### Estimates of the incremental impact of capital investment decisions on the housing rent levels

- 30 Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the HRA capital programme, expressed as a change in weekly rent levels. The actual rents paid by tenants will not change as a result of capital investment decisions as the Government's rent restructuring regime fixes rents based on local earnings and property values. However the balance on the HRA will change and expressing the variation in the way prescribed at least shows the effect of capital investment decisions on HRA Revenue. The variation relates to revenue contribution to capital outgoings (RCCO), which has a direct effect on revenue.

**Table 8: Incremental impact of capital investment decisions on housing rent levels**

	<b>Proposed Budget 2006/07</b>	<b>Forward Projection 2007/08</b>	<b>Forward Projection 2008/09</b>
	£	£	£
Weekly Housing Rents	2.92	1.62	2.20

- 31 **Members are asked to approve the levels of the incremental impact on Council Tax and Housing Rents of the existing Capital Programme as set out in the tables above.**

## TREASURY MANAGEMENT STRATEGY 2006/07 – 2008/09

- 32 The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Code. It covers the borrowing and investment activities and the effective management of the associated risks.
- 33 Treasury activities are strictly regulated by statutory requirements and by a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Council adopted the Code on 22 April 2002, and as a result adopted a treasury management policy statement (approved by Cabinet on 18 October 2004). This adoption meets the requirements of Prudential Indicator 13.
- 34 The prudential indicators described in previous sections consider the affordability and impact of capital expenditure decisions. The treasury service covers the effective funding of these decisions, and there are specific treasury prudential indicators included in this strategy which need approval.
- 35 In compliance with the Code, an annual report to Cabinet is made on the annual treasury strategy, outlining the expected treasury activity for the forthcoming three financial years. A further report is presented after each year-end, detailing the actual activity for the year. A key requirement of the strategy report is to explain both the risks associated with the treasury service and the management of those risks.

### Treasury Management Prudential Indicators and Limits on Activity

- 36 The introduction of the Prudential Code saw the replacement of the s45 limits imposed by the Local Government and Housing Act 1989 with four new prudential indicators:
- Upper limits on variable rate exposure. This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
  - Upper limits on fixed rate exposure. Similar to the previous indicator this covers a maximum limit on fixed interest rates.
  - Maturity structures of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.
  - Total principal funds invested for periods longer than 364 days. These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end.
- 37 The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates impacting negatively on the Council's overall financial position. However, a conscious effort has been made to allow for flexibility and to avoid being too restrictive as this may impair the opportunities to maximize returns.
- 38 **Members are asked to approve the following limits as required by Indicators P14 and P15:**

<b><u>Table 9: Limits on fixed and variable interest rate exposure on net debt</u></b>	2006/07 Upper %	2007/08 Upper %	2008/09 Upper %
Limits on fixed interest rate exposure (P14)	75 %	75 %	75 %
Limits on variable interest rate exposure (P15)	75 %	75 %	75 %

- 39 The Council is obliged to set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.



- 40 **Members are asked to set the limits in accordance with Indicator P16 at the levels shown in Table 10 below:**

<b>Table 10: Limits on fixed rate debt exposure</b>	Upper Limit %	Lower Limit %
Under 12 Months	20	0
12 Months and within 24 Months	20	0
24 Months and within 5 Years	50	0
5 Years and within 10 Years	75	0
10 Years and above	90	25

- 41 Following the Council's early repayment of its external debt on 29 March 2004 and the subsequent review of its treasury management operation, the decision was taken to extend the Council's maximum investment term from 364 days to five years. This decision was ratified by Council on 14 December 2004, and members were asked at the same time to change Indicator 17 from zero to £10,000,000, to enable a maximum amount of £10 m to be placed in investments with terms of one to five years.
- 42 Since this indicator was changed, the Council's treasury service has made one investment of £5m for a term of greater than 364 days. The rate obtained for this deal was 0.14% higher than the best rates on offer at the time – an additional £7,000 interest over one year – and 0.29% higher than the current rate offered for investments of 364 day terms.
- 43 **Members are asked to increase Indicator P17 to £15,000,000 for the financial year 2006/07, to allow sufficient flexibility to invest any additional funds resulting from sales of land.**
- 44 The Council's detailed treasury position is set out in Table 11 below. Members should note that the final line is negative, as the Council is a net investor.

**TABLE 11: Net debt and net investment position**

		31 March 2005 Actual £'000	Rate %	31 March 2006 Estimate £'000	Rate %
Fixed rate debt	PWLB	0		0	
	Market	0		0	
Variable rate debt	PWLB	0		0	
	Market	0		0	
Gross external debt		0		0	
Less transferred debt		-635	4.50	-610	4.50
Total Net Debt		-635		-610	
Fixed Investments		-44,600	4.80	-45,000	4.55
Variable Investments		-1,500	4.50	-3,000	4.50
Total Investments		-46,100		-48,000	
Net Investments		-46,735		-48,610	

- 45 Regardless of whether the Council is a net investor or borrower, interest rates represent a risk, as they affect both borrowing costs and investment returns. This Council employs Butlers, the treasury consultants, to advise on the treasury strategy, to provide economic data and interest rate forecasts, to assist planning and thereby to reduce the impact of unforeseen adverse movements. Their latest estimates of expected movement in interest rates are as follows:

**TABLE 12: Forecast movements in average interest rates****(Source: Butlers, November 2005)**

	Base Rate %	5 year Gilt %	20 year Gilt %
2005/06	4.6	4.3	4.5
2006/07	4.3	4.4	4.6
2007/08	4.5	4.6	4.7
2008/09	4.8	4.8	4.7

**Borrowing and Debt Strategy 2006/07 – 2008/09**

- 46 The Monetary Policy Committee announced the long-awaited cut in base rates following its August meeting. However the downturn in the UK interest rates cycle is expected to be prolonged and shallow with the lowest Bank of England Base Rate expected to be around 4.25% (it is currently 4.5%). GDP growth has been substantially weaker than anticipated as the slowdown in house price inflation and higher debt servicing costs combined to undermine consumer spending growth. Activity has remained weak to the end of 2005, but is expected to stage a recovery in 2006.
- 47 The Bank of England believes that the rebound in consumer activity, together with continued strength in public sector spending and a rise in corporate investment, will encourage higher growth in the future. This is open to debate and it is clear that the forecasting of interest rates in the current climate is difficult and a cautious approach is needed in treasury activity.
- 48 The international economic situation creates further uncertainty in the forecast. UK longer term rates have been influenced by US interest rates, which currently appear to be unrealistically low, and there continues to be a risk of an upward shift in rates. The exact timing of this is, however, difficult to predict.

**Investment Policy 2006/07 – 2008/09**

- 49 The repeal of Part IV of the Local Government and Housing Act 1989 on 1 April 2004 ended the approved investment regulations which restricted local authorities' choice of investment instruments. In common with the relaxation of borrowing controls in the prudential system, the current regime of investment regulation is governed by guidance from the Office of the Deputy Prime Minister. The most recent guidance was issued by the ODPM on 15 December 2003.
- 50 The key intention of the guidance is to maintain the current requirement for councils to invest prudently, and to ensure that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 22 April 2002 and has applied its principles to all investment activity.
- 51 The key requirements of both the Code and the ODPM guidance are to set an annual investment strategy covering the identification and approval of the following:
- The strategy guidelines for decision making on investment decisions, particularly non-specified investments.
  - The principles to be used to determine the amount of funds which can be committed for more than a year, and the minimum to be held in short term investments.
  - Specified investments the Council will use. These are high security (i.e. high credit rating, to a level defined by the Council), and high liquidity investments in sterling, with a maturity of no more than five years.
  - Non-specified investments, clarifying the greater risk implications, identifying the

general types of investment that may be used and a limit to the overall amount invested in any particular category that can be held at any time.

### **Investment Policy of the Council**

- 52 The main principle governing the Council's investment criteria is the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity.
- 53 The Council expects to maintain core investment balances of £25m, although this may rise on occasions due to cash flow reasons. The Council will therefore carefully balance the use of short term and specified investments. At least £25m (or 100%) of the core investment balance and any cash flow investments will be maintained as short term or specified investments.
- 54 Expectations on shorter-term interest rates, on which the majority of investment decisions are based, show a strong likelihood of decreasing. The Council's investment decisions are based on comparisons between the movements priced into market rates against the Council's and advisors' own forecasts. The Head of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. All investments will be made in accordance with the Council's investment policies and prevailing legislation and regulations.
- 55 The Council proposes to invest in specified investments. These are investments maturing within one year with all payments and repayments made in sterling. They are low risk assets where the possibility of loss of principal or investment income is very low. These would include investments with:
- I. The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity).
  - II. A local authority.
  - III. An investment scheme that has been awarded a high credit rating by a credit rating agency (currently AAA Money Market Fund).
  - IV. A body that has been awarded a high credit rating by a credit rating agency, such as a bank or building society.
- 56 **Members are requested to confirm their approval of the following specified investments for this council:**
- **All Category I investments;**
  - **All Category II investments;**
  - **For category III - money market funds rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.**
  - **For category IV - bodies with a minimum rating of A-1, P-1 and F1 as rated by Standard and Poor's, Moody's or Fitch rating agencies respectively.**
- 57 Non-specified investments are any other type of investment (i.e. not defined as specified above). These would include sterling investments with:
- V. Securities admitted to the Official List of The Stock Exchange, which are guaranteed by the UK Government (such as supranational bonds). These are fixed income bonds although the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
  - VI. Gilt edged securities with a maturity of greater than one year.
  - VII. Institutions not meeting the basic security requirements under the specified investments.

- VIII. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of greater than one year.
- 58 In the treasury management strategy for 2004/05 it was agreed that non-specified investments would not form part of the Council's investment portfolio. However, as a result of the review of the Treasury Management function in 2004, it was agreed that the Council would extend its approved counterparty listing to include any building society which met the following criteria:
- Listed in the top thirty building societies by capitalization size, as rated by Butler's Building Society Guide (updated annually). This Guide is regarded as the definitive guide to building society rankings by treasury advisors.
  - A minimum capitalization limit of £500m.
- 59 In order to protect the Council further, it was agreed that there should be restrictions on the maximum term and amount of investment in building societies;
- A maximum of £5m may be invested in any of the top ten building societies
  - Societies ranked 11<sup>th</sup> to 20<sup>th</sup> should have a maximum investment limit of £3m
  - Approved societies ranked between 21<sup>st</sup> and 30<sup>th</sup> should have a maximum investment limit of £2m
  - Investments in building societies with no credit rating and with assets in excess of £1 billion should be for a maximum term of nine months
  - Investments in building societies with no credit ratings and with assets between £500m and £1bn should be for a maximum term of six months
- 60 The same review concluded that the rising level of investments offered some scope for a limited proportion of funds to be invested for periods longer than one year. It was felt that five years was a reasonable maximum term. On the advice of Butlers, any investment of a term of more than one year would be made only with a counterparty possessing a minimum short term credit rating of A- (Fitch), A3 (Moody's) and A (Standard & Poors).
- 61 **Members are requested to confirm that, for the time being, it is intended that non-specified investments will not form part of the Council's investment portfolio, with the exception of;**
- **Building societies meeting the criteria in Point 58 above (subject to the restrictions laid down in Point 59) and**
  - **A maximum of £15,000,000 invested for terms exceeding one year, subject to the credit rating criteria in Point 60 and a maximum term of five years.**
- 62 The credit rating of counterparties will continue to be monitored regularly, as a policy at least monthly. However the Council receives credit rating advice from its advisers, Butlers, as and when ratings change, and counterparties are checked promptly. There will be a minor time delay between rating changes and the Council receiving notification, and on occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance, and if required new counterparties which meet the criteria will be added to the list.
- 63 It is not the Council's policy to use external fund managers for all or part of its investment portfolio. The advice given by Butlers in 2005 was that, for portfolios of less than £50m, the charges outweighed the potential income gains and savings. Officers will keep this situation under review.

The Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2006/07 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 2006/07. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council will consider the recommendations of the Cabinet on the budget for 2006/07 and will 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 is also a range of safeguards, which are in place 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 with Member and officer roles and responsibilities changing fundamentally. These changes are still on going, particularly for Leisure and Customer Services, and do represent a significant risk to the Council's ability to assess properly all the financial pressures it faces.
5. However the Council's budget process, developed over a number of years, has many features that promote an assurance in its reliability:
  - The rolling four year forecast provides a yardstick against which annual budgets can be measured
  - The early commencement of the budget process and the clear annual timetable for both Members and officers including full integration with the BVPP 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 revenue items smooths 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 require reports to Cabinet before inclusion in the draft budget
  - Clear and reasoned assumptions made about unknowns, uncertainties or anticipated or forecast changes
6. Changes to the process have also created the facility for far greater consultation, particularly with the creation of an Overview and Scrutiny Panel to deal with finance and performance management issues. An onus is now placed on Portfolio holders to deliver acceptable and accurate budgets, this is a role that has been taken seriously and with considerable understanding.
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 2006/07.**

**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 their formal adoption as an aide memoir remains useful.

**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 inevitably vary against the estimates made. Efforts have been made to predict the level of inflation in the coming year, but it should be noted that there is one specific item where there could be additional costs:
12. The energy market is particularly volatile at the moment and large swings have been seen in the prices for electricity, gas and petrol. The Council endeavours to protect itself by entering into long-term agreements and participating in purchasing consortiums. However, in extreme circumstances or where there are general shortages additional costs may arise. These additional costs may be in terms of direct energy costs to the Council or may be in terms of higher prices charged by suppliers who are themselves trying to pass on higher costs.
13. The annual pay award is not in doubt as agreement has already been reached on a 2.95% increase for 2006/07. Recruitment and retention remains a concern and considerable difficulty is being experienced in filling some vacancies. In the budgets a one per cent vacancy allowance is held centrally. It is unlikely that the Authority will have a full establishment throughout 2006/07 and so this allowance is reasonable.

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

14. The Council has always adopted a prudent view on the level and timing of capital receipts, a position justified by past experience. 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.
15. The exception to this relates to receipts from council house sales. In this instance because sales occur throughout the year and the receipts are significant in providing either revenue income to the General Fund or financing the capital programme, assumptions have to be made about their generation. It is clear there has been a reduction in the level of sales for 2005/06 of almost 50% (estimated total 30 for the year). This follows the decline from the exceptionally high level of sales in 2003/04 when 139 properties were sold. The rush to buy arose from public concern that the SOCH scheme might come to an end or that discounts may be reduced. Being debt free, the Authority benefits from transitional relief on capital receipts and is able to retain 25% of them in 2006/07 that would otherwise have been subject to pooling. The impact of this has been built into the reserves statements and the estimates for investment income. Having experienced a slow down in sales in 2004/05 and 2005/06, it is anticipated that sales will now stabilise at 30 for the following three years.
16. Clearly if the forecasts contained in this report are not realised in full, there could be a financial impact on the General Fund because investment income to that account has been based on that level of sales. However, this is relatively unlikely given the low numbers involved.
17. Other capital receipts are likely to be generated in the near future. The main transaction currently in progress is the disposal of the Parade Ground site at North Weald. A tendering exercise has been completed and negotiations are underway to conclude the sale. However, as stated above, no receipts are recognised prior to contractual confirmation.

18. Even with the Authority's substantial capital programme, which exceeds £50m over five years, it is anticipated that the balance of usable capital receipts at 31 March 2010 will be £7.9m. This balance does allow some flexibility in considering capital schemes, but it must be remembered that the using up of balances will reduce investment income.

**c. Treatment of demand led pressures and savings**

19. Following the changes to the grant distribution system and the very favourable provisional settlements for 2006/07 and 2007/08, it has not been necessary to set a savings target. It is possible to accommodate the requests for growth and keep the Council Tax increase below 3%.
20. Even though it has not been necessary to seek savings, a full consultation and scrutiny process has still taken place. The detailed draft budgets for all portfolios were discussed at the 16 January meeting of the Finance and Performance Management Scrutiny Panel.

**d. Risks inherent in partnership arrangements etc**

21. 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)**

22. The authority is currently debt free and intends to remain so in the medium term.

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

23. The Authority has a proven track record in financial management as borne out by previous Management Letters from the Authority's external auditors. A comparison of actual net expenditure with estimates over a number of years shows that the Council has experienced neither under or over spends at a level higher than an average of 2%.

24. However, the discipline of Financial Regulations - not incurring spending without a clear budget - must be rigidly observed, and the monitoring of the riskier budgets, particularly income budgets, needs to be maintained. Following the creation of the Finance and Performance Management Scrutiny Panel monitoring reports are now produced quarterly on key budgets throughout the year to identify 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 Cabinet in the summer of each year.



26. In putting forward the proposed budget, some Portfolio-holders have already identified areas of likely underspend in the current financial year. These have been incorporated into the revised estimates for 2005/06 and have increased the estimated level of the General Balance to £5.8m at 31 March 2006.

**h. The adequacy of insurance arrangements**

27. During the year the Council conducted a tender exercise for its insurance cover and entered into a new five-year agreement. As part of this exercise different levels of excess and policy cover were considered. The Council made a decision to undertake a greater degree of self-insurance and accept higher excess levels to reduce insurance premiums. Savings on premiums resulting from this exercise are likely to be in the order of £1m over the life of the agreement, and some of this saving is being paid into the Council's insurance fund. Any claims resulting from the acceptance of higher excesses will have to be paid from the fund. However, in 2004/05 a net surplus arose on the account, which has led to an increase in the fund from £531,000 to £681,000.

**i. Pension liabilities**

28. The Council makes contributions to the Pension Fund, which is invested in order to meet its liability to provide for the benefits provided to past employees and future benefits for existing employees. Employees contribute 6% of their salary. The Fund is valued every three years and the valuation as at 31 March 2004 identified a substantial deficit. In order to fund this deficit the administering authority (Essex County Council) have informed this Council that our deficit payments will need to increase by more than £850,000 per annum. If this increase were to be funded from revenue there would need to be either substantial cuts in services or large increases in Council Tax. To avoid such drastic actions an annual application is made to ODPM for a capitalisation direction. In 2003/04 £2.5m was moved from usable capital receipts to a pension fund capital reserve in anticipation of the outcome of these applications. Now authority has been given to capitalise the additional deficit payment in 2005/06 this reserve can be utilised.

**Statement on the adequacy of the reserves and balances**

29. Under CPA an assessment is made of the level of reserves and in order to achieve the 'good' ranking, an authority would have to meet either of the following criteria:
- The aggregate balance of the General Balance + Other earmarked revenue reserves +Liabilities not recognised in the financial statements (excluding unfunded pension liabilities) should be in surplus on 31 March 2006 and the General Balance should be at least equal to 5% but not more than 100% of forecast net operating expenditure for 2006/07 or
  - a formal financial risk management process should be operating, which the authority uses to justify a level of reserves.
30. The formula suggests that the Council should maintain a General Fund balance of at least £0.84m but no more than £16.81m. The Council's current best estimate of the General Fund balance at 31 March 2006 is £5.8m as shown in the Annex 8. 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.

31. 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 in Four Year Forecast £000	Level of risk %	Adjusted level of risk £000
Basic 5% of Net Operating Expenditure			840
Pay award being settled 1% in excess of 3% est. for 07/08 and future years	610	20	120
Other inflationary factors up to 1% above budget	400	20	80
Inflationary pressures between 1-4% higher than budget	600+	10	60+
Loss of North Weald Market Income	4,000+	20	800+
General Income up to 1% less than budget	400+	20	80+
General Income between 1-4% less than budget	600+	10	60+
Interest Rates 1% less than budget	500+	20	100+
Emergency Contingency	800+	20	160+
Renegotiating External contracts and partnership arrangements	Say 2,000+	10	200+
Total	9,910+		2,500+

32. 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.
33. As a starting point based on the 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 £17.46m. Government grant for 2006/07 will be £8.633m and this sum has been reduced by £490,000 to support floor increases for other Councils. In the four-year forecast it is assumed that the system of floors and ceilings will continue, but that the amount of grant lost to support the floor will reduce over time.
34. Other councils include contingency sums in their budgets for major risk items such as pay awards, general inflation, income and emergencies. It has always been the practice of this Authority to cover such risks through its revenue balances. The income generated from the market at North Weald airfield is significant to the ongoing financial well being of the Authority. Uncertainties surrounding the future of the airfield create a risk to the Authority that needs to be recognised and quantified hence its inclusion in the list above. 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.

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. The Council has also been conscious that its budget was reliant on the investment income that these balances produced and therefore the reduction in the level of balance should be gradual thereby managing the consequences of such a reduction over a long period of time. Balances had fallen from £8m in 1989/90 to £4.1m at 31 March 2003, but balances have increased in 2003/04, 2004/05 and will do so again in 2005/06.
36. A number of policies have been determined previously to bring about reductions and the current policy reflects that deficit budgets are now necessary for the balances to fall. That is to say that 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 £16.7m therefore 25% of that figure equates to £4.18m. The current four-year forecast shows balances falling to approximately £5.01m by 2009/10.
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 2010 balances will represent 28.7% of NBR, which is more than adequate.
38. It has already been stated that the capital fund is expected to remain in a surplus position beyond 2009/10 and the capital programme can be fully funded.
39. The Council has a few earmarked reserves (e.g. DDFund), which are intended to be used for specific purposes over a period of time of more than a single financial year. These earmarked reserves have been excluded from the assessment for this reason.
40. HRA revenue balances are expected to decrease slightly from £5.2m as at 31 March 2006 to £4.8m as at 31 March 2007. The balances on both the Housing Repairs Fund and the Housing Major Repairs Reserve are expected to reduce over the next year, from £2.7m to £2.6m and from £1.3m to £0.55m respectively. Overall the financial standing of the HRA and its reserves going into 2006/07 remain healthy.
41. **The conclusion is that the reserves of the Council are adequate to cope with the financial risks the Council faces in 2006/07 and the medium term.**

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