

Supplementary Committee Agenda



**Epping Forest
District Council**

Cabinet Monday, 5th February, 2007

Place: Civic Offices, High Street, Epping
Room: Council Chamber
Time: 7.00 pm
Committee Secretary: Gary Woodhall (Research and Democratic Services)
Email: gwoodhall@eppingforestdc.gov.uk Tel:01992 564470

4.a Capitalisation of Pension Deficit Payments (Pages 3 - 6)

(Finance, Performance Management and Corporate Support Services Portfolio Holder)
To consider the attached report (C/112/2006-07).

The Leader of the Council has determined in accordance with Section 100(B)(4)(b) of the Local Government Act 1972 together with paragraphs (6) and (24) of the Council's Procedure Rules that this report be considered as urgent business in order to facilitate the budget setting process.

7. FINANCE AND PERFORMANCE MANAGEMENT CABINET COMMITTEE - 29 JANUARY 2007 (Pages 7 - 14)

(Chairman of the Finance and Performance Management Cabinet Committee) To consider the minutes of the meeting held on 29 January 2007 and the recommendations therein. (C/110/2006-07).

17. TOP MANAGEMENT CABINET COMMITTEE - 31 JANUARY 2007 (Pages 15 - 20)

(Chairman of the Top Management Cabinet Committee) To consider the minutes of the meeting held on 31 January 2007 and the recommendations therein. (C/111/2006-07).

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Report to the Cabinet

Report reference: C/112/2006-07.
Date of meeting: 5 February 2007.



**Epping Forest
District Council**

Portfolio: Finance, Performance Management and Corporate Support Services.

Subject: Capitalisation of Pension Deficit Payments.

Officer contacts for further information: Bob Palmer (01992 – 564279).

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

Recommendations/Decisions Required:

- (1) That the Capitalisation Directions issued by the Department for Communities and Local Government for 2006/07 are for 57% of the amounts requested be noted;**
- (2) That, in view of the £269,227 shortfall on the General Fund capitalisation, this amount be met from the General Fund revenue contributions that had previously been moved to the Pension Deficit Earmarked Reserve;**
- (3) That, in view of the £126,230 shortfall on the Housing Revenue Account capitalisation, £20,520 be met from the HRA revenue contributions that had previously been moved to the Pension Deficit Earmarked Reserve and the balance of £105,710 be met from HRA revenue balances; and**
- (4) That no adjustment be made to the Council's 2007/08 budgets as the amount that can be capitalised in 2007/08 is not necessarily linked to the amount for 2006/07.**

Introduction:

1. The last triennial valuation of the pension fund at 31 March 2004 highlighted a significant deficit on the fund. In order to make good the deficit the annual amount of deficit contributions was increased by £851,649 for 2005/06, £923,659 for 2006/07 and £998,765 for 2007/08. Members decided that given the size of these sums and the availability of capital resources it was appropriate to seek capitalisation directions in order to minimise the effect of these additional costs on the Council Tax.
2. To fund the capitalisations £2.5 million was moved from usable capital receipts to the pension deficit earmarked reserve, this added to £315,000 of revenue funds that had already been set aside for this purpose.
3. A capitalisation direction was obtained for the full amount of the additional deficit payments for 2005/06 and this was charged against the earmarked reserve. However, separate capitalisation applications have to be made every year and for 2006/07 the system has been amended to limit the amount of directions in total.

Capitalisation Directions for 2006/07:

4. The DCLG announced very late on 31 January that capitalisation directions would be issued to cover 57% of the value of the applications made for 2006/07. This is due to the requests for capitalisation exceeding the total set. Applications were made for a variety of purposes:

	Number of Applications	Value £
Equal Pay	35	280,666,854
Pension deficits	16	32,711,444
Redundancy	25	23,258,076
Exceptional	2	2,630,315
Commutation Losses	17	2,219,292
Total	95	341,485,981

5. As DCLG was only prepared to issue £199,477,532 of directions for the above purposes all applications within these categories were allocated 57.19% of the amount applied for. Amounts for the General Fund and HRA have to be applied for separately, the position for 2006/07 is now:

	Applied for £	Approved £	Shortfall £
General Fund	628,827	359,600	269,227
HRA	294,832	168,602	126,230

General Fund:

6. Prior to the substantial increase in the earmarked reserve, with the addition of £2.5 million of usable capital receipts in 2003/04, some revenue amounts had been set aside to assist in dealing with subsequent deficit payments. Amounts totaling £294,480 were taken from the General Fund and it is now proposed to meet the £269,227 shortfall from these amounts.

Housing Revenue Account:

7. The amount taken from the HRA and credited to the earmarked reserve was £20,520 and it is recommended that this amount is now used to meet part of the HRA shortfall. This will leave a balance of £105,710 to be met from HRA revenue balances.

Budget for 2007/08:

8. At this time it is not proposed to alter the Budget for 2007/08, which has been prepared on the assumption that full capitalisation directions will be obtained. The particular problem in 2006/07 is the very high level of applications arising from equal pay claims. The first table above shows that some £281 million of applications were made for this purpose, these represented 82% of total applications.

9. Given that all local authorities are required to have their single status arrangements in place by the end of 2006/07 and that the back pay element of claims will be in 2006/07, it is anticipated that applications arising from equal pay settlements will reduce substantially in 2007/08.

10. On this basis it is still reasonable to assume that a full direction may be obtained for 2007/08. However, the shortfall this year does highlight the need for CSB savings to be identified during 2007/08 in case this situation is repeated.

Other Options for Action:

11. Contained in the report.

Statement in support of recommended action:

12. Budget shortfall still needs to be addressed.

Consultation undertaken:

13. No external consultation undertaken.

Resource implications:

Budget provision: As per report.

Personnel: As per report.

Land: As per report.

Community Plan/BVPP reference: Various.

Relevant statutory powers: Various.

Background papers: Local Government Finance Report.

Environmental/Human Rights Act/Crime and Disorder Act Implications: N/A.

Key Decision Reference (if required): Finalisation of Budget, Declaration of Council Tax, To set the levels of Council Tax for all areas within the District, and Declaration of Rents.

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EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Finance and Performance Management Cabinet Committee **Date:** Monday, 29 January 2007

Place: Committee Room 1, Civic Offices, High Street, Epping **Time:** 6.30 - 7.25 pm

Members Present: J Knapman (Chairman), Mrs D Collins, Mrs A Grigg and C Whitbread

Other Councillors: D Stallan

Apologies: S Metcalfe

Officers Present: J Akerman (Chief Internal Auditor), J Gilbert (Head of Environmental Services), P Haywood (Joint Chief Executive), G Lunnun (Democratic Services Manager), P Maddock (Assistant Head of Finance) and R Palmer (Head of Finance) and B Moldon (Senior Finance Officer).

44. WEBCASTING INTRODUCTION

The Chairman made a short address to remind all present that the meeting would be broadcast live to the Internet and would be capable of repeated viewing.

45. MINUTES

RESOLVED:

That the minutes of the meeting of the Committee held on 11 December 2006 be taken as read and signed by the Chairman as a correct record.

46. DECLARATIONS OF INTEREST

No declarations of interest were made pursuant to the Council's Code of Conduct.

47. ANY OTHER BUSINESS

It was reported that there was no urgent business for consideration at the meeting.

48. INTERNAL AUDIT - MONITORING REPORT - OCTOBER/DECEMBER 2006 AND WORK PROGRAMME - JANUARY/MARCH 2007

The Committee considered a report which summarised the work undertaken by the Internal Audit Unit between October and December 2006. The report also contained the Work Plan for the fourth quarter of the current financial year and a status report on previous Audit recommendations.

Members noted that the Audit Assistant part-time post had continued to be held vacant in order to provide some budget flexibility to meet the cost of specialist auditors and external contractors undertaking specific audits within the Approved Plan. Sickness during the third quarter had amounted to 43 days and the average level of sickness per member of staff over the last 12 months had been 19 days. Whilst this was of concern, the majority of the sickness related to the certificated long-term sickness of two members of the Team. Members noted that sickness continued to be monitored in accordance with the Council's Managing Absence Procedure.

During the quarter, Audit reports had been issued in respect of the following:

(a) Investigation:

- (i) Housing Service Cleaner - attendance and time keeping;

(b) Systems Audits:

- (i) housing benefits;
- (ii) bank reconciliation;
- (iii) non-domestic rates;
- (iv) corporate external funding;
- (v) Corporate training;
- (vi) housing rents – "tolerated trespassers";
- (vii) fleet operations;
- (viii) grounds maintenance;
- (iv) cash office spot checks;
- (x) office contracts – follow-up; and
- (xi) North Weald Airfield – follow up.

Members were advised that the main conclusions from the systems audits undertaken indicated that systems were generally operating satisfactorily in those areas and only isolated areas or control issues had been identified. Attention was drawn to some of the key findings from the third quarter audits.

Attention was drawn to a summary monitoring the follow up of audits carried out in 2005/06 as an aid to ensuring timely and adequate follow up both by Internal Audit and service management.

The Committee was advised that the majority of the audits of the Council's main financial systems had been completed by the end of the third quarter. In recognition that Audit coverage was also required within the Council's services other than Finance, the Audit Plan for the fourth quarter covered a broad range of service areas.

Attention was drawn to a schedule setting out the current status of the planned audits in the current year's Audit Plan as approved in April 2006. Members noted that two investigations had been added to the Plan during the year and that one audit had been extended to embrace a wider scope, at the request of the appropriate Head of Service. Whilst the majority of planned audits would be completed by 31 March 2007, a small number would slip to 2007/08 or not be carried out, partly due to the incidence of sickness within the Audit Team, and partly due to changed operational circumstances within the service concerned. Members were advised that where appropriate, prioritisation had been based on a risk assessment.

The Committee considered the Unit's performance in relation to the Local Performance Indicator targets for 2006/07. There had been some slippage in the achievement of the target for the percentage of planned audits completed, but the position was expected to improve by the end of the year, despite the recent pressure caused by staff sickness. The "chargeable" staff time percentage and unit cost figures had also been affected by sickness levels, which had prevented the target average cost of £285 per day from being met. The overall cumulative unit cost for the first nine months of the year was £322 per audit day.

Members were advised that during the third quarter, the Council had hosted a training event on risk based auditing for the in-house team and several auditors from across Essex.

RECOMMENDED:

- (1) That the reports issued and significant findings between October and December 2006 be noted;
- (2) That the Audit follow-up status report be noted;
- (3) That the Work Plan for January-March 2007, be noted; and
- (4) That the 2006/07 Audit Plan status report be noted.

49. SUNDRY INCOME AND DEBT POLICY

The Head of Finance presented a report proposing a new corporate policy for sundry income and debt.

Members were advised that in order to address adverse comments made in last year's use of resources assessment, officers had undertaken a review of procedures for collecting sundry debts. The review had resulted in a new debt recovery procedure being introduced on 1 November 2006, and improvements in the collection rates had been reported in the Members' Bulletin in December 2006.

The Committee was advised that it was now necessary for the Council to adopt a Sundry Income and Debt policy to complement the new procedures. Members considered a draft policy which reiterated the new debt recovery procedure, and also included a further incentive to services to ensure that they raised their debts correctly and promptly so that payment was received as quickly as possible.

RECOMMENDING:

That, subject to the views of the Housing Scrutiny Standing Panel, the draft new corporate policy for Sundry Income and Debt be adopted subject to:

- (a) paragraph 8.6 being amended to read as follows:

"In order for a debtor to receive more than three months' credit a detailed income and expenditure sheet should be completed for their case to be considered. The Senior Finance Officer should be consulted on all these cases"; and

- (b) Appendix A paragraph 1.3 (c) being amended to read as follows:

"If the debtor breaches the agreement they will receive one reminder letter. If a further breach of the agreement is then made, the agreement will be terminated and passed back to the service for them to instruct Legal to take action (copy of the agreement should be forwarded to the service)".

50. COUNCIL BUDGETS 2007/08

The Head of Finance presented a report on the current position of the draft budget 2007/08. Members were reminded that the budget guidelines had been established as:

- (a) the ceiling for CSB net expenditure to be no more than £17,000,000 including net growth/savings;
- (b) no ceiling for DDF net expenditure, but all items in the programme to be reviewed; and
- (c) the District Council Tax to be increased by no more than the rate of increase in the Retail Prices Index.

Members considered a list of proposed CSB changes for next year. The largest item was £113,000 for the end of subsidy on reinstatement grants. Under Section 541 of the Housing Act 1985, the Council had been receiving subsidy for reinstatement grants made between 1987 and 1991. The subsidy had been for loan charges on those grants and lasted for 20 years from the inception of each grant. The subsidy was coming to an end over the next couple of years and so the loss of income had to be reflected as CSB growth.

The other significant item of CSB growth was £59,000 for higher energy costs. This amount was spread across the portfolios, with the largest single amount being £44,000 in Finance, Performance Management and Corporate Support Services.

The CSB savings fell into two categories. The first group comprised savings from cost reductions and procurement efficiencies. There were two main items in this group, firstly, a £38,000 saving following an e-auction for computer hardware, which had resulted in savings of up to 40% on new computer equipment. Secondly, a saving of £35,000 following the re-letting of the Council's mobile phone contract.

The other category of CSB savings covered the areas where income had been increased. The most significant increase in income was the additional £50,000 that the Council should receive from SLM under the terms of the income share agreement for the Leisure Centres.

Members considered a list of DDF items which amounted to £876,000 net expenditure, offset by transfers of £317,000. The largest cost item was £199,000 for

works to principal ordinary watercourses, although £100,000 of this had been re-scheduled from 2006/07. The highest spending portfolio was Planning and Economic Development, which was budgeted to spend £349,000, most of which was for Local Plan amendments and the clearing up of a site in Paynes Lane, Nazeing. The transfers were £117,000 of reimbursement of residual costs of Highways from Essex County Council and £200,000 from the Local Authority Business Growth Incentive Scheme.

Members were reminded of the policy of restricting increase in District Council Tax to less than the increase in the Retail Prices Index. At the meeting of this Committee on 11 December 2006, it had been decided that the District Council Tax increase should be 3.5% in recognition of the RPI figure at that time being 3.7%. Since that time the RPI had increased to 4.4% but it was not proposed to go above the 3.5% increase in District Council Tax.

The Head of Finance advised that the longer-term guidelines covering the period to March 2011 provided for the level of General Fund Revenue balances to be maintained within a range of approximately £3.5 million to £4,000,000 but at no lower than 25% of net budget requirement whichever was the higher. The current projection showed this guideline would be breached in 2010/11, by which time reserves would have fallen to £3.4 million and 25% of net budget requirement would be £4.5 million.

Longer-term guidelines also provided for future levels of CSB net expenditure being financed predominately from external funding from Government and Council Tax with support from revenue balances being gradually phased out. The outturn for 2005/06 had added £968,000 to reserves and the original estimates for 2006/07 had anticipated a further increase of £389,000. However, the supplementary estimates now proposed and other changes to the revised estimates meant that £502,000 of reserves would now be used to finance the deficit in 2006/07. The deficit would reduce slightly in 2007/08 to £321,000 before increasing to £925,000 in 2008/09 and £1.269 million in 2009/10. This highlighted the need to review and reduce expenditure to ensure that the guideline of reserves of 25% of net budget requirement was not breached towards the end of the period.

Members noted that the Local Government Finance Settlement was in line with the figures advised last year as part of a two-year settlement.

In relation to the 2007/08 General Fund Budget, the uncertainties over the future costs of waste management and concessionary fares, and changes to the grant formula would not be resolved for some time. CSB growth of £1.5 million had been allowed for a new long-term waste management contract and the lengthy tender process was now well underway. However, it was unlikely that the actual costs to be incurred, and the identity of the new contractor, would be known for several months. From 1 April 2008 bus pass holders would no longer be restricted to travel within the area of their local scheme. This would be a fundamental change to the scheme and if it was to be achieved in an efficient manner, guidance from Government was now urgently needed. The other major area of uncertainty still outstanding was whether the Department for Communities and Local Government would provide a capitalisation direction to cover the Pension Fund deficit payments for 2006/07. The capitalisation direction had been obtained for 2005/06 but it was necessary to apply each year separately, and now as well as considering whether individual applications met the criteria, the national economic impact of all applications was also considered.

The Committee noted that the Capital Programme was based on expenditure previously agreed by the Cabinet and approved as part of the Capital Strategy by the

Council on 19 December 2006. The only late additional capital item included was £69,000 for the replacement ICT system for Revenues and Benefits which had been considered by the Cabinet on 22 January 2007. Some changes to the previous programme had also been made to reflect the latest position on slippage, most notably in respect of Bobbingworth Tip where £1.3 million of the £1.659 million budget had been moved from 2006/07 to 2007/08.

The estimated amount of capital receipts to be retained by the Council through transitional relief between 2004/05 and 2006/07 had reduced from £7,000,000 to £5.5 million, due to a reduced level of Council house sales. The Council would use the majority of this funding on investing in its own housing stock, to ensure that all of its properties met the Government's decent home standard by 2010. However, an estimated £1.1 million of the funding would be utilised to fund the contributions towards affordable housing and the shortfall in Government funding for disabled facilities grants.

The Head of Finance reported that even with a substantial Capital Programme, which exceeded £50,000,000 over five years, it was anticipated that the Council would still have £15.7 million of usable capital receipt balances at the end of the period. It was also anticipated that further disposals of surplus land would take place during 2007/08 although in line with normal practice no account would be taken of any disposable proceeds until the transactions had been completed.

The Committee was advised that the balance on the Housing Revenue Account at 31 March 2008 was expected to be £5.4 million, after a deficit of £399,000 in 2006/07 and a surplus of £179,000 in 2007/08. A significant factor in the change from deficit to surplus had been the reduction in capital expenditure charged to revenue, with the 2007/08 figure being £403,000 lower than the 2006/07 revised estimate. Members were reminded that the rent increase was set with reference to an individual property's formula rent but subject to various constraints. This process was referred to as rent restructuring and was introduced to bring Council rents and housing association rents more in line with each other. The process was set to continue until 2012, when most local authority and housing association rents should converge. The actual average rent increase for 2007/08 was expected to be 5%.

The Head of Finance presented his report on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. He pointed out that the Local Government Act 2003 required members to have regard to his report when determining the Council's budget requirement for 2007/08 and that where his advice was not accepted there was a requirement that this should be formally recorded in the minutes of the Council meeting. He drew attention to his conclusions.

The attention of the Committee was also drawn to the need to consider the Council's Prudential Indicators and Treasury Management Strategy for 2007/08. Members noted that the current limit on funds invested for over 364 days was £15,000,000 and it was proposed to increase this limit to £20,000,000. This change was intended to give the Treasury Management staff sufficient flexibility to act quickly if a large capital receipt arose, rather than having to invest the funds at less favourable rates while a change to the policy was sought. The other proposed change was to increase the maximum investment limit with the highest rated counter parties from £8M to £12M.

RECOMMENDED:

- (1) That the Council's 2007/08 General Fund budgets be noted and that further consideration be given to these budgets at the meeting of the Cabinet on 5 February 2007;

(2) That the 2007/08 Housing Revenue Account budget including the revised revenue estimates for 2006/07 be agreed;

(3) That the intention to apply rent increases and decreases for 2007/08 in accordance with the Government's rent reforms and the Council's approved rent strategy be noted;

(4) That the increase in deficiency payments to the Pension Fund again be capitalised in accordance with the capitalisation direction request made to the Department for Communities and Local Government; these payments being funded from the Pension Fund capital reserve that was established with a transfer of £2.5 million from the usable capital receipts account;

(5) That the Council's Prudential Indicators and Treasury Management Strategy for 2007/08 be agreed; and

(6) That the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2007/08 budgets and the adequacy of the reserves be noted.

51. CORPORATE GOVERNANCE GROUP

The Committee considered the minutes of meetings of the Corporate Governance Group held on 1 November and 20 December 2006.

RESOLVED:

That the issues considered by the Corporate Governance Group be noted.

52. EXCLUSION OF PUBLIC AND PRESS

RESOLVED:

That the public and press be excluded from the meeting for the item of business set out below on the grounds that it would involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of Schedule 12A of the Local Government Act 1972 and it is considered that the exemption outweighs the potential public interest in disclosing the information:

Agenda Item Number	Subject	Exempt Information Paragraph Number
9	Corporate Governance Group	3

53. CORPORATE GOVERNANCE GROUP

The Committee considered restricted minutes from the meetings of the Corporate Governance Group held on 1 November and 20 December 2006.

RESOLVED:

That the minutes and the action arising be noted.

CHAIRMAN

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A of the Local Government Act 1972.

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