Committee Agenda

Webcast Meeting

Epping Forest District Council

# *Finance and Performance Management Cabinet Committee*
# *Monday, 26th September, 2011*

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| **Place:** | Council Chamber, Civic Offices, High Street, Epping |
| **Room:** | Committee Room 1 |
| **Time:** | 6.30 pm |
| **Democratic Services Officer:** | Rebecca Perrin, The Office of the Chief Executive<br>Tel: 01992 564532 Email:<br>democraticservices@eppingforestdc.gov.uk |

**Members:**

Councillors G Mohindra (Chairman), Mrs M McEwen, J Philip, Mrs P Smith and Mrs L Wagland

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**PLEASE NOTE THE START TIME OF THIS MEETING**

**7. ANNUAL GOVERNANCE REPORT (Pages 3 - 26)**

(Director of Finance & ICT) To consider the attached report (FPM-009-2011/12).

**10. FINANCIAL ISSUES PAPER (Pages 27 - 40)**

(Director of Finance & ICT) To consider the attached report.

11 .1 **Government Consultation - Localising support for Council Tax in England** (Pages 41 - 54)
To consider the attached report from the Finance and Performance Management Scrutiny Panel. (Minute from the panel to follow).

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PKF

Accountants &
business advisers

# Epping Forest District Council

# Annual Governance Report

# 2010/11

September 2011

DRAFT

# Contents



## Appendices



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

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

# 1 Executive summary

1.1 Auditing standards require that we report to "those charged with governance" the key findings of our audit prior to issuing our opinion on the financial statements. In addition the Audit Commission requires us to report to you our key findings in relation to our Value for Money (VFM) conclusion work.

## Findings and conclusions

1.2 A summary of the audit findings and conclusions is included in the table below:

| Area of audit | Findings & Conclusion |
|---|---|
| **Financial statements** | |
| **Key financial systems** | The **key financial systems are generally adequate as a basis for preparing the financial statements**. However, a deficiency in control was identified in respect of the housing and council tax benefits system.<br>We were able to place reliance on the work of Internal Audit. |
| **Financial statements** | No material misstatements were identified as a result of our audit work. Some presentational issues of a material amount were corrected but had no effect on the Council's reported outturn.<br>One non-trivial but not material error was been identified and this is detailed in Appendix B.<br>**Some areas of work are still outstanding at the time of drafting this report.** Should these result in any significant issues, we will give a verbal update to the Audit and Governance Committee.<br>We are satisfied that the Annual Governance Statement (AGS) is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.<br>**Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified "true and fair" opinion.** |
| **Value for Money conclusion** | |
| **Value For Money conclusion** | This is based upon the following two Audit Commission criteria:<br>- The organisation has proper arrangements in place for securing financial resilience<br>- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.<br>At the time of drafting this report we are finalising our work on the second criterion above and an oral update will be given at the Audit and Governance Committee.<br>**We anticipate, from the work completed to date and subject to satisfactory completion of the remaining work in progress, issuing an unqualified value for money conclusion.** |

## Acknowledgement

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

# 2 Introduction

2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ending 31 March 2011.

2.2 Our report is presented to the Members in accordance with the provisions of International Auditing Standards (UK & Ireland) ("ISA") 260 and ISA 265, which require us to report key findings from the audit and significant deficiencies in control, respectively, to "those charged with governance", prior to issuing our opinion on the financial statements. Also in accordance with ISA 265 we have reported verbally to management other non-significant findings from our audit that have not already been raised by Internal Audit.

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

## Findings

2.4 Recommendations in response to the findings identified by our audit of the financial statements "other than those concerning corrected and uncorrected misstatements in the financial statements dealt with separately below" are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.

2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated weaknesses already reported by Internal Audit unless these are significant deficiencies in internal control as defined by ISA 265.

## Fee outturn

2.6 The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within your Audit Plan. The table below sets out this analysis:

| Audit plan 2010/11 | Planned fees £ | | Actual fees £ | |
|---|---|---|---|---|
| Financial statements, including WGA | 86,200 | | 86,200 * | |
| Value for Money conclusion | 35,000 | | 35,000 | |
| Planning and reporting | 28,500 | | 28,500 | |
| ***Subtotal audit*** | | **149,700** | | **149,700** |
| Grants | | 62,000 | | 62,000 |
| **Total** | | **211,700** | | **211,700** |

* At the time of drafting our audit is not complete. Should any additional fees arise, we will discuss the matter with management and issue an updated fee outturn to the Audit and Governance Committee.

In addition fees were billed in the year in relation to a matter unrelated to the financial statements or our value for money responsibilities which we have reported on separately to the Council, and we have almost concluded our billing on this matter.

2.7 A number of the grant claim audits are currently in progress or do not require certification until 31 December 2011 and therefore the actual fee remains an estimate of the expected final position. The final position will be reported in our grants report to be issued in February 2012.

## Independence

2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2010/11, has remained valid throughout the period of the audit.

# 3 Financial statements

## Requirements

3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance.

3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.

3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.

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

3.5 We are also required to set a second level of materiality (known as “performance materiality”) which is to be used when planning and performing the audit. This has to be set at a level lower than the materiality for the financial statements as a whole so as to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

3.6 We are required to report to you all uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the auditor’s report, except for those that are clearly trivial. For reporting purposes, we consider misstatements of less than £31,500 to be trivial to the financial statements, unless the misstatement is indicative of fraud. We will request that any non-trivial uncorrected misstatements be corrected.

## Reporting to those charged with governance

3.7 We will report to you:

- our assessment of and response to **significant risks** in the financial statements
- significant qualitative aspects of **accounting practices** including the application of the applicable financial reporting framework
- significant difficulties that we have encountered during the course of the audit
- significant matters discussed, or subject to correspondence with management or other employees
- **written representations** that we are requesting from you which includes the final draft letter of representation to be agreed by management and those charged with governance
- **material misstatements** that have been corrected by management
- **uncorrected misstatements**
- expected modifications to the **audit report**
- significant deficiencies in **accounting and internal control systems** identified during our work
- **matters required to be reported by other auditing standards**

- any **other audit matters of governance interest** relevant to the financial reporting process.

3.8 Our comments in these areas are set out in order below.

## *Significant risks of material misstatement in the financial statements*

3.9 Auditing standards require that we bring to your attention areas that require additional or special audit consideration and are, therefore, considered a significant risk. These may include weaknesses in controls or areas requiring a higher degree of judgement by management.

3.10 We reported to you our updated risk assessment in the 2010/11 Annual Audit Plan issued in December 2010. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and concluded that there were additional significant risks to those previously reported.

3.11 The findings from our review of financial statements risks and other areas of audit focus identified in our Audit Plan are summarised in the table below:

| Risk area | Overall conclusion |
|---|---|
| **Significant audit risks** | |
| **Management override** | Our review of management journals and accounting estimates did not indicate any material management bias or override of controls in preparing the financial statements. |
| **Implementation of International Financial Reporting Standards (IFRS) in particular:**<br>• **Leases**<br>• **Grants**<br>• **Componentisation**<br>• **Investment properties** | The Council has put in place appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts. On review of the accounts we identified that the Council had not included the necessary note in relation to the Transition to IFRS as required under IAS 1 or the 1 April 2009 comparators in respect of the balance sheet notes to the accounts. This has been corrected within the revised financial statements. No issues were identified with the work carried out on the specific risk areas which included:<br><br>**Leases** – We completed a review of significant leasing arrangements which the Council is party to, and concluded that the Council had appropriately accounted for leases under IFRS.<br><br>**Grants** – A review of government grants and contributions was completed and we concluded that the Council had appropriately accounted for these under IFRS.<br><br>**Componentisation** – We reviewed the appropriateness of the Council's policy in respect of componentisation of its property, plant and equipment and considered this to be reasonable. However, at the time of drafting this report there are some outstanding queries in respect of the accuracy of the implementation of its policy. In particular, we are awaiting confirmation from the District Valuer that the useful economic lives of assets, used by the Council to calculate its depreciation charge, are reasonable. We will update the Audit & Governance Committee will the final position.<br><br>**Investment properties** – A review was carried out on investment properties to ensure the Council had appropriately categorised investment properties under IFRS. No issues were identified. |
| **Implementation of new property management system** | The Council did not implement the new property management system in time to use this in the preparation of the financial statements. This was not, therefore, treated as a significant risk for the audit. |

| Risk area | Overall conclusion |
|---|---|
| **Property, plant and equipment valuation and accounting** | The District Valuer's report for housing and the internal Valuer's report for general fund asset were agreed through to the fixed asset note and revaluation reserve within the financial statements. There were no issues identified with the number or valuation of properties included within the financial statements. |

## *Accounting practices*

### Application of accounting policies

3.12 The key change introduced by the 2010 Code of Practice on Local Authority Accounting in the United Kingdom was the introduction of an IFRS based set of financial statements, resulting in a number of significant changes in accounting practice:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation, where grant conditions have been met
- The main financial statements have changed, and there are additional requirements regarding segment reporting
- There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced
- Property leases are classified and accounted for as separate leases of land and buildings. Local Councils will also need to assess whether other arrangements contain the substance of a lease
- Investment properties are measured at fair value, with gains and losses recognised in Surplus or Deficit rather than through the revaluation reserve
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset
- The Code introduces a new classification of non-current assets held for sale. Specific criteria apply to this classification
- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay
- The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary.

3.13 The Council has dealt with the implementation of these changes in an appropriate manner and assisted us to complete an early audit of the changes under IFRS in February 2011.

### The financial statements preparation process

3.14 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations did introduce the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June 2011. The financial statements were signed and dated 30 June 2011 but not presented for audit until 11 July 2011.

3.15 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with electronic working papers on 8 August 2011, in line with the agreed timetable.

## Staff availability

3.16 The initial audit timetable agreed with the Council anticipated completion within 5 weeks from the 8 August start date. However due to a notable amount of annual leave being taken by key finance contacts during the audit period, in particular the Assistant Director of Finance being absent for two of the five weeks, the efficiency of the audit was adversely affected resulting in notable slippage in the timetable.

3.17 We have discussed the possibility of moving the audit to a more optimal time for the Council and will discuss this further before finalising the timetable for the 2011/12 audit next month.

## Testing of transactions and balances

3.18 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. Issues arose in respect of the following matters, which we bring to your attention:

***National Non Domestic Rate (NNDR) income and expenditure***

3.19 The Council did not include the small business rate supplement of £516,000 within the NNDR income and expenditure amounts within the Collection Fund. This was identified when the amounts payable within the NNDR3 grant claim did not agree through to the financial statements. Both income and expenditure were understated by £516,000. This is not material but has been corrected.

## Appropriateness of management accounting estimates

***Recoverability of debtor balances***

3.20 When calculating its bad debt provision, the Council has applied the same methodology and provision rates for several years, without any formal review being undertaken in respect of on-going appropriateness. Last year we recommended that the Council should perform such a review, taking into account trends in its actual debt recovery and income collection rates. The Council did not undertake this review.

3.21 We assessed the general fund provision which the Council had applied in the year against the level of actual recovery of prior year debtors balances, and trends in income collection rates, and concluded that the Council has in our view been over prudent in its estimate for the level of provision required but accept any understatement would not be material. In light of the current economic climate, however, we understand and accept the reasons behind the Council's business decision to be cautious in this respect. Nevertheless we continue to recommend that a formal review of methodology and rates is undertaken.

## Adequacy of disclosures

3.22 We identified some departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. All disclosure errors have been amended by the Council. These were:

- The Council did not disclose the 1 April 2009 balances within the Balance Sheet notes to the financial statements as required by IFRS 1. There were some notes such as property, plant and equipment where this information was disclosed to reconcile opening and closing balances, but there were other notes such as debtors and creditors where this information was not disclosed. The Council has amended all relevant notes to show the 1 April 2009 balances.

- The Council had not excluded all statutory debtors and creditors, for example amounts due from HMRC in respect of the VAT refund, from debtors and creditors included within the financial instruments note to the accounts. This led to a number of adjustments being made to both the debtors and creditors figures included within the financial instruments note.

- The revaluation history of the Council's Property, Plant & Equipment note (12) had not been split out to show the amounts revalued in previous years. The Council have now included the relevant disclosures within the financial statements.
- The Debtors note (17) showed the individual classes of debtors gross of the bad debt provision. The Code requires that each of the classes of debtors is shown net of the bad debt provision and that the bad debt provision is not separately disclosed. The Council corrected this disclosure for both the current year and prior year comparatives.
- The Council had not included a note which illustrated the transition between UK GAAP and IFRS accounting. This was included within a subsequent version.

3.23 In addition, the Council produced the Cash Flow notes in line with the example financial statements included within the Code, but we judged the pro-forma note as not achieving proper compliance with International Accounting Standard 7 (IAS 7) because the disclosures were inadequate in depth and structure. This has been amended.

## *Written representations*

3.24 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as Appendix C. Changes to the section on valuation of the housing stock may be necessary if the outstanding confirmation from the District Valuer that the useful economic lives of assets, used by the Council in its calculation of depreciation, is not received or indicates that they are not reasonable. .

## *Identified misstatements*

3.25 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. To assist you in fulfilling your governance responsibilities, which include maintaining oversight of the financial reporting process and the system of internal control, we have set out below the misstatements identified during our audit.

### Material misstatements corrected by management

3.26 These were as follows:

- £872,000 and £1,207,000 debtors included within the financial instruments note which should have been excluded from this note as they fall under the category of statutory debtors. This is detailed further above.
- £1,265,000 vacant possession value of housing stock which should have been excluded from the total figure disclosed within note 1 of the Housing Revenue Accounts. This has no impact on the valuation of housing stock included within the balance sheet. The original figure included within the financial statements was the valuation as at 1 April 2010 and did not take account of the properties which had been sold in the year.
- £782,000 adjustment to the value of depreciation in respect of Council dwellings in note 4 to the accounts, assumptions made about the future and other major sources of estimation uncertainty. The Council had originally included a depreciation figure which did not take account of the updated useful economic lives after componentisation.

3.27 These are presentational issues of a material amount which were corrected but had no effect on the Council's reported outturn.

## Uncorrected non-trivial misstatements

3.28 We set out at Appendix B all of the non-trivial misstatements which we noted during the course of our audit and which management do not intend to adjust. There were no brought forward uncorrected non-trivial misstatements affecting this year's accounts. We will provide an update at the Audit and Governance Committee meeting should we identify any additional items during the final clearance of outstanding issues.

3.29 We will obtain written representation from the Audit and Governance Committee of the reasons for not making these adjustments as noted in Appendix C.

## *Audit report*

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

- Clearance of manager and partner accounts/system review points
- Receipt of the related party disclosure declaration for one Member
- Evidence to support the Council's approach to the componentisation of non-HRA property, plant and equipment, in particular, receipt of confirmation from the District Valuer that the useful economic lives of assets, used in the calculation of the depreciation charge, are reasonable
- Completion of our substantive testing in support of benefits expenditure
- Resolution of cash flow statement disclosure queries.

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

## *Accounting and internal control systems*

3.32 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:

- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
- the robustness of your accounts preparation processes.

3.33 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.

3.34 Your key financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Non-contracting income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- National Non Domestic Rates
- Housing rents income
- Investments and investment income

3.35 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:

- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
- review the arrangements for preparing the financial statements
- select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
- assess the significant estimates and judgements made by officers in preparing the accounts
- consider the adequacy of presentation and disclosures included in the financial statements.

3.36 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.

3.37 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements. We have included in Appendix A any recommendations arising from issues identified during our work which have not previously been communicated by Internal Audit.

## Risks of material misstatement due to fraud

3.38 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:

- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
- considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
- made enquiries regarding instances of actual fraud you have brought to our attention.

3.39 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

## Internal audit

3.40 Where possible, we have sought to use Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:

- reviewed Internal Audit's working papers and reports
- considered the robustness of the key financial systems on the evidence of this work
- re-performed Internal Audit's evaluation of controls and a sample of its testing of the effectiveness of controls, to ensure that its conclusions are soundly based.

3.41 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

## Significant deficiencies in internal control

3.42 In accordance with ISA 265, we would like to draw to your attention the following matters arising from our review of the key financial and operational systems that we consider indicate the existence of significant deficiencies in the system of internal control.

3.43 In this respect please note that:

- the purpose of the audit was for us to express an opinion on the financial statements. Our audit is not designed to identify all deficiencies in the system of internal control nor to identify all improvements which might be necessary to address the deficiencies identified
- the audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
- we report only those deficiencies that have come to our attention as a result of our audit work and that we have concluded are of sufficient importance to merit your attention.

### *Housing and council tax benefits*

3.44 Detailed within the Council's housing and council tax benefit system procedures is a control that states senior benefits staff will perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims. Internal Audit identified that this control had not been fully operational for the year and two senior staff members were not completing the necessary level of checks. This matter has been included within Internal Audit's report on benefits which will be presented to the next Audit and Governance Committee. This failure in control could result in the Council awarding incorrect benefit to claimants.

3.45 Annual parameter up-ratings on the benefits system are processed at the beginning of the financial year however subsequent up-ratings (in the form of changes to standing data such as Local Housing Allowance) may also be required throughout the financial year. It was identified that controls were in operation for the annual up-rating, however there are no controls around subsequent up-ratings to ensure they have been input correctly.

3.46 As a result of these control failures we undertook additional substantive testing on benefit expenditure to ensure that the Council had received the appropriate documentation to support the assessment of benefit claims and that the claims had been awarded correctly. No issues were identified from the testing carried out.

## *Matters required to be reported by other auditing standards*

3.47 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

## *Other audit matters of governance interest*

### Annual governance statement

3.48 The Council has a responsibility to publish an Annual Governance Statement, including the outcome of a review of its effectiveness, with its 2010/11 financial statements.

3.49 We have reviewed the Annual Governance Statement and the supporting review of effectiveness that has been undertaken and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

# 4 Value for money conclusion

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

## VFM conclusion

4.2 Our VFM conclusion is based on considering our preliminary judgements from the review of arrangements to deliver against the Code criterion as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

4.3 The table below sets out our conclusions for each of the VFM Code criteria:

| | Code criterion | Criterion met |
|---|---|---|
| 1 | The organisation has proper arrangements in place for securing financial resilience. | Yes |
| 2 | The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. | To be confirmed |

### *Financial resilience*

4.4 Along with all other Councils, Epping Forest District Council was notified of a reduction in central government revenue funding of 16.8% (or £1,706K)[1], with further reductions in the subsequent years. Forecast spending reductions are 13.1% (or £3,154K)[2] in 2011/12 which is a higher reduction than other District Councils across the Country that are all facing similar financial pressures. Although the Council is looking at utilising some reserves to rectify budgeting shortfalls, it has also transferred HRA assets to the General Fund with an annual rental income of £1.4m and also restricted historically underspent budgets, in order to fund the finance gap in the short term.

4.5 The Council has a good track record of achieving its budgets, putting it in the fortunate position, compared to similar councils, of having built up good levels of funds and reserves to support it in its response to the financial pressures now faced. From review of current documentation, the Council is on track to deliver its 2011/12 budget and is now focusing on its medium term financial strategy.

### *Challenging economy, efficiency and effectiveness*

4.6 At the time of drafting this report we are finalising our work in this area of the VFM conclusion and an oral update will be given at the Audit Committee.

### *Overall conclusion*

4.7 We anticipate, from the work completed to date and subject to satisfactory completion of the remaining work in progress, issuing an unqualified value for money conclusion.

[1] Source: CLG – RA and SSG returns 2010/11 and 2011/12
[2] Source: Audit Commission Financial Resilience Survey

# Appendix A: Action Plan

| Conclusions from work | Recommendations | Priority | Management response | Responsibility | Timing |
|---|---|---|---|---|---|
| **Financial statements** | | | | | |
| There were some disclosure errors identified during our audit that would have been avoided had the Council utilised *LAAP 88 - Closure of the 2010/11 Accounts and related matters* (CIPFA technical update)which is a technical update paper issued by CIPFA to support councils in preparing their accounts. | 1. Review LAAP bulletins and technical updates prior to preparing the financial statements to identify all key changes and technical issues relating implementation of the Code and reflect them within the draft financial statements. | High | Agreed. | Peter Maddock<br>Assistant Director of Finance and ICT | May 2012 |
| The Council's current methodology for setting its provision for bad and doubtful debts does not take into account trends in actual arrears collection rates. Current information indicates that the Council could be over-providing. | 2. Review the policy and methodology for calculating the provision for bad and doubtful debts, taking into account trends in actual arrears collection rates. | High | Agreed. | Peter Maddock<br>Assistant Director of Finance and ICT | March 2012 |

| Conclusions from work | Recommendations | Priority | Management response | Responsibility | Timing |
|---|---|---|---|---|---|
| Included within long term debtors are 9 dwellings which the Council has sold a proportion of to former tenants. The Council doesn't have legal rights over the properties but are entitled to a percentage of the sale value.<br><br>The Council has been adjusting each dwellings valuation based on average valuation changes over the last few years to ensure the correct valuation is included within the amount due to the Council. The Council has not had these dwellings revalued along with the remaining housing stock as they have not been assigned beacon values. The assets were compared to similar dwellings included within the Valuer's report as at 1 April 2010 and the overall difference in valuation was trivial. However this practice has the potential to generate a non trivial difference in valuation in future years. | 3. Request that the Valuer assigns a beacon value to each of the properties to ensure that the asset value included within the financial statements is in line with the overall housing stock. | Low | Agreed. | Peter Maddock<br><br>Assistant Director of Finance and ICT | March 2012 |
| **Financial systems** | | | | | |
| Two senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims as documented within the Council's system notes for benefits. | 4. Remind the senior benefit staff of the on-going requirement for them to perform the 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims. | High | Agreed. | Janet Twinn<br><br>Assistant Director of Finance and ICT - Benefits | October 2011 |
| Ad-hoc updates made to standing data within the benefits system do not go through the same controls process as annual parameter updates. This could lead to incorrect standing data being input into the system resulting in incorrect benefit being paid. | 5. Standing data updates throughout the year should be printed and counter signed by an appropriate officer to evidence the up rating has been correctly input. | High | Agreed. | Janet Twinn<br><br>Assistant Director of Finance and ICT - Benefits | October 2011 |

# Appendix B Uncorrected misstatements

The table below details the potential differences recorded during the audit which are not adjusted for currently within the financial statements. There were no prior year uncorrected misstatements.

| Unadjusted misstatements | Income Over/ (Under) £'000 | Expenses (Over)/ Under £'000 | Assets (Over)/ Under £'000 | Liabilities Over/ (Under) £'000 | Reserves (Over)/ Under £'000 | Management comments |
|---|---|---|---|---|---|---|
| **Factual misstatements** | | | | | | |
| Being the correction of the netting off of the upward revaluation of guest rooms with the impairment charge recognised in the CIES. | | (69) | | | 69 | |
| **Judgemental misstatements** | | | | | | |
| None | | | | | | |
| **Total net misstatements** | | | | | | |
| **- Net understatement of costs** | | (69) | | | | |
| **- Net overstatement of net assets** | | | | | 69 | |

In addition we believe that the bad debt provision of sundry debtors is overstated whilst this can not be quantified we are satisfied that this is not material.

# Appendix C: Draft letter of representation

PKF (UK) LLP

Farringdon Place
20 Farringdon Road
London
EC1M 3AP

[26] September 2011

Dear Sirs

### Financial statements of Epping Forest District Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Epping Forest District Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

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

## FINANCIAL STATEMENTS

### Responsibility for the financial statements

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

### Accounting policies

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

### Significant assumptions

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

- See pension fund assumptions below
- Depreciation
- Bad debt provision

### Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

### Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that are free from misstatement, whether arising from fraud or error.

### Fraud

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

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

### Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

### Transactions with related parties

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the financial statements of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the financial statements.

### Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council other than those disclosed in the financial statements.

### Pension fund assumptions

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

| | |
|---|---|
| • Rate of inflation (RPI) | 3.4% |
| • Rate of inflation (CPI) | 2.9% |
| • Rate of increase in salaries | 4.4% |
| • Rate of increase in pensions | 2.9% |
| • Rate for discounting scheme liabilities | 5.5% |
| • Take up option to convert the annual pension into retirement grant | 50.0% |

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

### Valuation of housing stock

The useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year were agreed with the expert valuer appointed by the Council.

### Uncorrected misstatements

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

## Subsequent events

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

**Bob Palmer**

**Director of Finance and ICT**

### *Representations of the Council*

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

### Responsibility for the financial statements

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

### Uncorrected misstatements

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

### Annual Governance Statement

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

Yours faithfully

**Councillor A Watts**
**Chairman of the Audit and Governance Committee**

Signed on behalf of the Council

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

# Appendix D: Draft independent auditor's report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EPPING FOREST DISTRICT COUNCIL

### *Opinion on the Council's financial statements*

We have audited the financial statements of Epping Forest District Council (the Council) for the year ended 31 March 2011 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

This report is made solely to the members of the Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Director of Finance and ICT and auditor**

As explained more fully in the Statement of Responsibilities, the Director of Finance and ICT is responsible for the preparation of the Council's Statement of Accounts, that include the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and ICT; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of Epping Forest District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

**Opinion on other matter**

In our opinion, the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## *Conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources*

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

**Respective responsibilities of the Council and auditor**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Epping Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

## *Certificate*

We certify that we have completed the audit of the accounts of Epping Forest District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Richard Bint**

for and on behalf of PKF (UK) LLP
London, UK

[26] September 2011

# *Report to the Finance and Performance Management Cabinet Committee*

Epping Forest District Council

## *Report Reference: FPM-013-2011/12*
## *Date of meeting: 26 September 2011*

**Portfolio: Finance and Economic Development**

**Subject: Financial Issues Paper**

**Officer contact for further information: Bob Palmer – (01992 – 564279)**

**Democratic Services Officer: Rebecca Perrin - (01992 - 564532)**

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**Recommendations/Decisions Required:**

**1. To recommend to the Cabinet the establishment of a new budgetary framework including;**

**2. To recommend to the Cabinet, as part of the new budgetary framework, the setting of budget guidelines for 2012/13 covering:**

**(a) The Continuing Services Budget, including growth items;**

**(b) District Development Fund items;**

**(c) The use of surplus General Fund balances; and**

**(d) The District Council Tax for a Band 'D' property; and**

**3. To recommend to the Cabinet the agreement of a revised Medium Term Financial Strategy for the period to 2015/16, and the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.**

**Executive Summary:**

This report provides a framework for the Budget 2012/13 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

In broad terms the following represent the greatest areas of current financial uncertainty and risk to the Authority

- Local Government Resource Review
- New Homes Bonus
- Localisation of Council Tax Benefit
- Self-Financing for the Housing Revenue Account
- Possible Double-Dip Recession
- Development Opportunities
- Capitalisation of Pension Deficit Payments
- Shared Services

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2012/13.

**Reasons for Proposed Decisions:**

By setting out clear guidelines at this stage the Committee establishes a framework to work within in developing growth and savings proposals. This should help avoid late changes to the budget and ensure that all changes to services have been carefully considered.

**Other Options for Action:**

Members could decide to wait until later in the budget cycle to provide guidelines if they felt more information, or a greater degree of certainty, was necessary in relation to a particular risk. However, any delay will reduce the time available to produce strategies that comply with the guidelines.

**Report:**

General Fund Out-turn 2010/11

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2010/11 is being presented to Council tomorrow, but the audit has not amended any of the outturn figures. In summary the General Fund Revenue outturn for 2010/11 shows that CSB expenditure was £814,000 lower than the original estimate and £579,000 lower than the revised. The main variance, as in 2009/10, related to staff savings from vacancies.

2. The revised CSB estimate for 2010/11 reduced from £18.048m to £17.813m with the actual being £17.234m. The largest variance on growth and savings items was on waste management where the saving achieved was £106,000 greater than had been estimated. This led to the total in year saving being £103,000 higher than anticipated at £225,000. A significant variance was also seen on the opening CSB figure, which is consistent with the main variance arising from salary savings.

3. Net DDF expenditure was £1.134m lower than the revised estimate. However £462,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2011/12, giving a net saving of £672,000. Two directorates had variances between their revised and actual DDF spending of more than £100,000. Corporate Support Services underspends included £129,000 on the Planned Building Maintenance Programme and £95,000 on Asset Rationalisation projects, the funding for these projects has been carried forward. The net underspend of £128,000 in Environment and Street Scene was due to additional income from off-street parking and the leisure management contractor and an underspend on remedial works to watercourses. In addition to this, non-directorate specific items were £633,000 better than the revised estimate.

4. The non-portfolio items include the second part of the "Fleming Claim" for the repayment of VAT. This reclaim related to over declared VAT on sports tuition fees and bulky household waste collections in the period 1973 to 1997 and as the recovery had been uncertain it had not been included in the revised estimates. The inclusion of the "Fleming Claim" income and the underspend mean the balance on the DDF is higher than previously predicted at £3.269m at 31 March 2011. However, the vast majority of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Development Framework.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend of £814,000, compared to the original estimate. This translates into an increase in balances of £270,000 compared to the original estimate of a reduction of £544,000.

## The Updated Medium Term Financial Strategy – still to be updated

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2010/11 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that the use of revenue balances will be £331,000 in 2011/12, £267,000 in 2012/13, £365,000 in 2013/14 and £350,000 in 2014/15 before reducing to £191,000 in 2015/16.

7. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2012 of £8.24m represents just over 56% of the anticipated NBR for next year (£14.61m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2016 the revenue balance will have reduced to £7.07m. This still represents 47% of the NBR for 2015/16 (£14.92m).

8. The financial position as at 1 April 2011 was better than had been anticipated, reflecting the urgency and effectiveness of the cost control measures put in place. Much work was done on the 2010/11 revised estimates to identify and reduce budgets with a history of underspending. However the outturn has shown that there are still some areas where further reductions are achievable.

9. The target saving for 2012/13 has been left at the original level of £1.3m; this decreases to £0.6m for 2013/14 and then reduces to £0.5m for 2014/15. These net savings could arise either from reductions in expenditure or increases in income. Substantial progress has already been made on the identification of savings and the individual items have been covered in reports to Cabinet. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £0.9m of DDF funds available at 1 April 2016. The four-year forecast approved by Council on 22 February 2011 predicted a DDF balance of £216,000 at the end of 2014/15 and this has increased due to the additional VAT reclaim late in 2010/11.

11. Capital balances have been updated for recent outturn figures and updated assumptions on capital receipt generation. The reduction in estimated capital receipts means that the predicted balance at 1 April 2016 falls to £8.3m. Over this four-year period the capital programme has approximately £50m of spending. Previously the need to use capital balances for revenue generating assets has been highlighted and this has been included in the Capital Strategy.

## Continuing Services Budget

12. The CSB saving against revised estimate was £0.579m, compared to £0.702m in 2009/10. The prime cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £19.126m compared against a revised estimate of £19.392m. There is currently an under spend on the salaries budget in 2011/12 and this is expected to continue.

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

14. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Distributable NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As

Members have not indicated any desire to contradict Government guidance that council tax increases should continue to be frozen for next year, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that Council Tax would increase annually by 2.5% after 2012/13. Previously Members had a policy which under which increases in Council Tax had been linked with increases in the rate of inflation. For information, RPI is currently 5.2% and CPI 4.5% and inflation forecasts retain an important role in estimating future costs.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2011/12 did not achieve that objective, as funding from Government Grants and Local Taxpayers fell £171,000 below CSB. The revised estimate for this year shows no change in CSB at this time although that is likely to change as we go through the budget process.

<u>Local Government Resource Review</u>

16. Before considering the current consultation on the Local Government Resource Review and the replacement of Formula Grant funding with retained National Non-Domestic Rates NNDR) it is worth looking back at the Comprehensive Spending Review (CSR). The CSR only provided us with two years figures instead of the usual four because of the Government's desire to radically change the system of funding local authorities. The table below shows what now appear to be the final figures from the Formula Grant system.

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** | **2011/12 £m** | **2012/13 £m** |
|---|---|---|---|---|---|
| Relative Needs Amount | 5.455 | 5.457 | 5.464 | 4.302 | 3.901 |
| Relative Resource Amount | -5.228 | -5.096 | -4.956 | -2.842 | -2.810 |
| Central Allocation | 8.793 | 8.834 | 8.871 | 6.223 | 5.611 |
| Floor Damping | 0.302 | 0.173 | 0.036 | -0.296 | -0.249 |
| ***Formula Grant*** | **9.322** | **9.368** | **9.415** | **7.387** | **6.453** |

17. The figures shown above represented a poor CSR for the Council with grant reductions of 15.2% (against the adjusted 2010/11 figures) for 2011/12 and a further 12.1% (against the adjusted 2011/12 figures) for 2012/13. The monetary and percentage changes over recent years are shown below.

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** | **2011/12 £m** | **2012/13 £m** |
|---|---|---|---|---|---|
| Formula Grant (adjusted) | 9.322 | 9.368 | 9.415 (8.710) | 7.387 (7.340) | 6.453 |
| Increase/(Decrease) £ | 0.093 | 0.046 | 0.047 | (1.323) | (0.887) |
| Increase/(Decrease) % | 1.0% | 0.5% | 0.5% | (15.2%) | (12.1%) |

18. In addition to the detailed figures for 2011/12 and 2012/13, headline control totals for local authority funding were given for 2013/14 and 2014/15. These control totals show further reductions of approximately 1% in 2013/14 and 5% in 2014/15. The extent to which these figures change will depend on the conflicting demands of progress towards deficit reduction and the state of the economy. At the moment the Government is sticking very strongly to the mantra of deficit reduction but any further weakening in the already fragile recovery will bring renewed demands for some form of stimulus.

19. Having set the context, I shall move on to consider the Local Government Resource Review. On 18 July the Department for Communities and Local Government (DCLG) launched a consultation "Local Government Resource Review: Proposals for Business Rates Retention", this is a 46 page document with 33 detailed questions and a response deadline of 24 October. The Government feels change in the system of local authority funding is necessary to provide a financial incentive to local authorities to promote business growth in

their areas, currently any increase in NNDR is paid into the pool with no direct local benefit. By replacing Formula Grant with NNDR the Government is also seeking to increase the financial independence of local authorities. There is little authorities can do to increase their Formula Grant allocation but in theory they will be able to encourage growth in their rating lists and so increase their funding.

20. The proposals for change include restrictions so that authorities will not be allowed to keep all NNDR; a process of equalisation will remain to redistribute funds between authorities. The amount DCLG give or take will be fixed, allowing authorities to keep growth above this level. If growth is "disproportionate" DCLG will take back a share of it for redistribution and DCLG will retain the right to "reset" the amounts given or taken in future years.

21. The main consultation paper has now been supplemented by eight technical papers, issued 19 August, which cover –

1. Establishing the Baseline (49 pages, 19 questions)
2. Measuring Business Rates (22 pages, 4 questions)
3. Non-Billing Authorities (20 pages, 4 questions)
4. Business Rates Administration (24 pages, 8 questions)
5. Tariff, Top Up and Levy Options (44 pages, 14 questions)
6. Volatility (18 pages, 2 questions)
7. Revaluation and Transition (22 pages, 5 questions)
8. Renewable Energy (20 pages, 7 questions)

22. Some, but by no means all, of the key questions are –

1. How should the baseline be set for rate retention?
2. How will the levy on disproportionate benefit be calculated?
3. How will the levy be used to fund a safety net?
4. How do you balance the need to protect some authorities with the need to provide a strong incentive for growth?
5. How will resets work?
6. How will funds be pooled in areas and what areas can be used for pooling?
7. Should the current system of reliefs be maintained?

23. This proposal represents the biggest change to local authority funding for many years and is complicated by the number of inter-related moving parts. Given the number of different variables and the options for each variable it is extremely difficult to estimate the effects over the medium term. The Government have stated that for the current CSR period the baseline will be set at the level of Formula Grant currently received, after adjustment to reflect the reductions in the overall control totals.

24. Essex authorities are working collaboratively on this issue and consultants have been engaged to assist with consultation responses and financial modelling. This clearly has the potential to be a very divisive issue as authorities in thriving areas with good growth prospects will have very different views to those in need of regeneration. Similarly, the idea of pooling is an interesting concept as every authority will want to pool with someone they believe has better prospects than themselves and that simply cannot work. One final point worth making is that NNDR bills will still be calculated in the same way and that there is no proposal to allow authorities to set charges locally.

25. A draft consultation response will be presented to the Overview and Scrutiny Committee on 18 October and progress on this proposal will be closely monitored. However, it is likely that the final version of the Medium Term Financial Strategy (MTFS) that will be presented to Council in February will still need to make assumptions about this policy and its outcomes.

New Homes Bonus

26. The Government has a consistent policy of encouraging development. In the same way that retaining increases in NNDR incentivises Councils to promote business growth, the New Homes Bonus (NHB) provides an incentive to promote home building. When the budget was set for 2011/12 the full details of and funding for the NHB had not been confirmed. Because of this uncertainty, and concern about possible legal challenges if Councils were felt to be making planning decisions for financial gain, no income from the NHB was allowed for in the 2011/12 budget.

27. It is now clear that the NHB will form a substantial part of local authority funding for the foreseeable future. The technical papers mentioned above reveal that from 2013/14 funding for NHB will be top sliced from the national NNDR pool. Even though only three years NHB will be payable in 2013/14 the maximum six years funding will be top sliced, with the excess being redistributed to local authorities in some way as grant. The exact mechanics and amounts are still to be determined but it appears that the NHB is intended to remain as an incentive on top of the basic level of funding that local authorities will get through retained NNDR. As the funding is top sliced and then re-allocated on the basis of relative performance in housing growth there will be a strong cumulative redistributive effect, this will penalise areas of low housing growth.

28. The amount of NHB payable for a year is determined by the annual change in the total number of properties on the Council Tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average Council Tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. For 2011/12 the Council will receive £295,000 and the amount due in respect of growth for the year to October 2011 will be approximately £325,000. These two figures combined will give a total NHB income figure for 2012/13 of £620,000.

29. The key question is how much of this income should be taken into the CSB budget for each year through the life of the MTFS. At one extreme it could be argued that to build any income into the CSB would make the Council vulnerable to judicial review on planning decisions and may not be prudent until there is clarity over the full make up of and inter-relationships between the different funding streams. At the other extreme it could be argued that £300,000 of income should be added to the CSB for every year from 2011/12 going forward up to the maximum of six years (2011/12 £0.3m, 2012/13 £0.6m, 2013/14 £0.9m 2014/15 £1.2m, 2015/16 £1.5m and 2016/17 and onwards £1.8m). On one hand, if no income is taken into account severe reductions could be made to services that ultimately prove to be unnecessary, from a financial point of view. On the other, if too much income is allowed for the Council could find itself having to implement substantial cuts on a short time scale. Although it should be remembered that our reserves exist as a buffer against any need to make sudden changes.

30. A prudent position at the moment seems to be to allow for the income for 2011/12 and 2012/13 but no additional income beyond that until the full outcomes of the Local Government Resource Review are known. It is unlikely that any adjustment to the system would remove NHB already earned as this would undermine the policy. On that basis CSB income of £295,000 has now been added to 2011/12 and a further £325,000 to 2012/13.

Localisation of Council Tax Benefit

31. Council Tax Benefit (CTB) is a means tested benefit that is available to help those on low incomes meet their Council Tax bills. The current caseload for CTB at the Council is approximately 8,900, generating annual expenditure of £10.3m. This is currently fully funded by Government, with a system of payments on account and a year end grant claim. CTB is currently a national system with national regulations determining entitlement.

32. The Government is determined to reduce the overall cost of benefits to the country and is making numerous changes through the Welfare Reform Bill. As part of the Welfare Reform Bill the benefits system is meant to be streamlined and simplified through the introduction of Universal Credit. It is not yet clear how Universal Credit will operate or indeed how universal it will really be as it seems a number of benefits will not be included in it. One proposal that is clear in the Welfare Reform Bill is the abolition of Council Tax Benefit. The Government is saving 10% (£490m) on the national cost of CTB by localising it from 2013/14. It will be for each local authority to determine their scheme of CTB but they will only receive 90% of the current cost.

33. At one extreme authorities could implement a scheme at 90% of the current scheme and those in receipt of CTB would have to pay more, for this Council this would have an average impact of £116 p/a on claimants. However, it has become clear that the Government will require pensioners to be protected and as they make up half the caseload this doubles the impact to £232 p/a. It is also possible that the final scheme may require protection for vulnerable working age claimants which could leave working age non-passported claimants with bills of £720 p/a. At the other extreme authorities could top up Government funding from their own resources, for this Council the impact would be £1.034m.

34. If Members decide not to provide any additional funding it will clearly be very difficult for some individuals to pay their Council Tax. This will probably increase the costs of collection, reduce collection rates and increase bad debts. This will cause the least difficulty for the Council's own budgets but will have a more significant impact on the County Council, as approximately 75% of each Council Tax bill goes to them.

35. If Members decide to provide additional funding it is likely that the policy will be unpopular with some residents who do not qualify for CTB. These residents could argue that either they are paying more Council Tax to subsidise those on benefit (if the funding is provided through increases in Council Tax) or that they are receiving poorer services (if the funding is provided through savings in other service areas). Providing additional funding will place the greatest burden on this Council's budgets and will minimise the impact on the County Council. There is also a significant financial risk that the number of claimants increases beyond the amount estimated, a strong possibility in the current economic climate.

36. There are many other practical difficulties with localising CTB. It is possible that a "postcode lottery" will emerge with many different schemes being constructed. This in turn raises the difficulty of system suppliers having to develop many different add-ons, for which there will be very little time to test and implement. There are also some difficult policy conflicts for the Government to consider. Firstly, given the basic requirement to "make work pay" how local CTB schemes dovetail with Universal Credit will need to be carefully calculated. Secondly, giving the Council a grant of £9.3m to administer CTB locally reduces the financial independence that is meant to be an aim of the Local Government Resource Review.

37. The consultation on localising CTB closes on 14 October and a draft response will have been considered by the Finance & Performance Management Scrutiny Panel on 20 September. How this policy develops and the extent of local policy choices in it will be closely monitored and reported to Members through the budget process. At this time it has been assumed that no additional local funds will be used to top up the Government grant.

Self-Financing for the Housing Revenue Account

38. A number of reports on this issue have already gone to Scrutiny Panels, Cabinet and Council. Currently the Council makes an annual payment of £11.3m into the national subsidy system. From 2012/13 annual payments into and out of the national subsidy pool will cease and instead authorities will either be required to take on debt or will have an amount of debt repaid for them. The Council was initially advised that the debt it would be required to finance would be approximately £180m. The final figure will not be confirmed until January 2012 but

is likely to be closer to £190m, due to the continuing high levels of inflation which feed into the subsidy calculations.

39. A structured approach has been followed to deal with each of the necessary steps. This has required the amendment of the Treasury Management Strategy, as the settlement date has been brought forward from April 2012 to late March 2012. Cabinet have considered the extent of the house building programme that is to be pursued. The next stage is to confirm the amount of investment that will be undertaken in the existing stock and to assist with this a number of options for the 30 year business plan are currently being prepared. A decision on the business plan will determine when cash becomes available to repay borrowing and then allow the examination of funding methods to continue.

40. Traditionally the cheapest and easiest route for local authorities to borrow has been through the Public Works Loans Board (PWLB). However, to discourage what was seen as excessive borrowing by local authorities the Government increased the margin on PWLB loans to 1% over gilts. This meant there were opportunities to obtain loans in the financial markets at cheaper rates than those offered by the PWLB. The Council was approached by several merchant banks and took the decision to obtain a credit rating and thoroughly examine all of the alternative options to the PWLB. On 19 September Danny Alexander announced at his party conference that loans made as part of the self-financing settlement would have a discount of approximately 75 basis points applied to them. As the largest saving against PWLB rates that any of the merchant banks had been suggesting was in the region of 30 basis points there now seems little point in pursuing any other option than the PWLB.

41. Earlier in the consultation process for self-financing concerns were raised about two possible impacts on the General Fund (GF). The first of these was the requirement to make Minimum Revenue Provision (MRP) on the nominal borrowing between the GF and the HRA. In the draft regulations the DCLG have now confirmed that changes due to self- financing do not have to be taken into account in determining any requirement to make MRP. The other area of concern was the interest to be charged between the HRA and GF. This issue is still to be determined but it currently appears that authorities will have the power to set their own rates of interest for borrowing between funds. So at this point in time both of the significant concerns have been addressed, although (as seen with the PWLB) a further policy shift cannot be ruled out.

Possible Double-Dip Recession

42. Recent weeks have seen reductions in growth predictions for the economy and increases in the unemployment statistics. In addition to this DCLG statistics have shown a substantial rise in the number of homeless people. Between April and June 11,820 applicants were accepted by councils as being in need of homeless help and therefore eligible to go on a council house waiting list, this is a 17% increase on the same period in 2010. Additionally, there are ongoing concerns about Greece and other Euro Zone economies which have caused wild fluctuations in share prices and caused fresh concern about the banking sector.

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

Development Opportunities

44. There is a separate Cabinet Committee charged with looking at and co-ordinating asset management issues so I do not intend to trespass on their territory. However, it is necessary

to touch briefly on the number of development opportunities that currently exist in the district and their potential benefits. There is the possibility of a retail park in Loughton and a mixed use redevelopment of the St Johns area in Epping amongst the developments. The Council has had the requirement for capital resources to be used for revenue generating schemes as part of the Capital Strategy for sometime. If schemes proceed it will only be after rigorous examination to ensure business cases make sense and a financial benefit is anticipated. The economic boost offered by such schemes could benefit the Council in several ways, mirroring the multiple threats of a double dip recession.

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

Capitalisation of Pension Deficit Payments

46. The Council has an established policy of seeking annual capitalisation directions for pension deficit payments. There are strict financial criteria laid down by the Government that you must satisfy to be eligible for a capitalisation direction. If you satisfy the criteria you get a Gate 1 approval but it is only after the Government has considered all Gate 1 approvals in aggregate that it decides the amount of Gate 2 or final approvals.

47. Since the capitalisation policy was put in place the Council has generally been successful in obtaining directions. A direction was first applied for in 2005/06 and one was obtained for the full amount requested. It was in 2006/07 that the Two Gate System was introduced and that year saw all applicants receive directions for only 57% of the amounts applied for. In subsequent years the Government has issued directions for the full amounts applied for, apart from 2010/11 when directions were issued for only 38% of the amounts applied for.

48. For 2011/12 the financial criteria were doubled so that the amounts applied for had to exceed both 10% of reserves and 0.5% of budgeted expenditure. On 27 July we received identical letters dated 22 July refusing our applications for both GF & HRA. The letters state that the department was not satisfied that meeting the expenditure from revenue would cause "an unacceptable adverse impact on services" or that "meeting the pension costs from revenue resources would cause exceptional financial difficulties for EFDC". These rejections confirm that all the other required criteria have been met.

49. The picture in 2011/12 was complicated by a number of large applications for redundancy costs, directions were issued for some £207m of redundancy costs across the country. This was compounded by DCLG deciding on an "all or nothing" approach for 2011/12, unlike in 2006/07 and 2010/11. A view now needs to be taken on how likely it is that the Council will be able to obtain capitalisation direction again in the future. There is no indication that the capitalisation application process will not continue and it is hoped that redundancy costs across the country will not be as large in subsequent years.

50. The pre 2005/06 deficit payment has remained in the CSB, so although we apply for the full value of the deficit payments it is only the amount over the base that we have ever capitalised. The refusal of the applications for 2011/12 will mean unbudgeted charges to the GF of £560,000 and to the HRA of £265,000. Given the ongoing uncertainty about future capitalisations it would be prudent to now bring the balance of the deficit payments into the CSB. This would not prevent future capitalisation applications being made and the position could be reviewed again if applications in subsequent years proved successful.

## Shared Services

51. A "Memorandum of Understanding" has been signed with the two other West Essex districts to jointly explore possibilities for shared services. This grouping provides a focus for discussions but other opportunities across Essex and beyond will also be explored where they offer genuine benefits and a sound business case can be constructed. The issues of NNDR and CTB discussed above are likely to generate opportunities for joint working and risk sharing.

52. The insurance claims service provided for Uttlesford District Council has been expanded to cover advice on policies and extending this arrangement to include Harlow District Council was evaluated but proved not to be a workable proposition at this time. Other opportunities are also being examined but are still at a preliminary stage. Another shared service the Council continues to benefit from is the Essex Procurement Hub hosted by Braintree District Council; this also includes Castle Point, Colchester and Maldon Councils.

## DDF

53. The carry forward of £462,000 represents a decrease of £61,000 on the £523,000 of slippage for 2009/10. This improvement is partly due to the tighter controls on DDF budgets as budgets over a given age are no longer carried forward automatically but have to be justified. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions need to be answered over whether it was really a priority and if that money could have been used for a more urgent purpose.

54. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £0.9m of DDF available at 1 April 2016.

## The Capital Programme

55. Council house sales remained in single digits for the third year in a row, although the values did slightly exceed the amounts allowed for in the revised estimates. It is not anticipated that sales will return to the previous higher levels for some time. This is consistent with the two completions so far in the first five months of 2011/12. The Capital Programme has already been adjusted to reflect this anticipated lower level of Council house sales.

56. Significant receipts have previously been generated through the sale of other assets. Land values in some areas are starting to improve again and a number of potential projects are currently being evaluated. As non-housing receipts are not included in the estimates before completion has occurred no allowance has been made in the MTFS.

57. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 20 June 2011 highlighted that the underspend of £1.49m was consistent with the previous years figure of £1m and maintained the improvement on more substantial underspends in prior years. Non-housing expenditure was £0.64m below the estimate at £2.58m, whilst housing expenditure of £7.35m was £0.85m below the estimate of £8.2m. The slippage in the programme will be carried forward to subsequent periods.

## The Council Tax

58. Band D Council Tax increased by 1.5% for 2010/11 following increases of 2.5% in the previous two years. The Government has made it clear that it expects authorities to freeze the Council Tax for both 2011/12 and 2012/13. The Council complied with this instruction in 2011/12 and it is anticipated that this will also be the case for 2012/13. From 2013/14 onwards it is assumed that future increases will not exceed 2.5%.

A revised Medium Term Financial Strategy

59. Annexes 1(a&b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £1.25m in 2011/12, increasing to £1.31m in 2012/13 before reducing to £0.6m for 2013/14 and £0.5m for 2014/15. These savings would give total CSB figures for 2011/12 revised of £15.84m and 2012/13 of £14.88m.

60. This proposal sets DDF expenditure at £1.57m for the revised 2011/12 and £0.8m for 2012/13, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

61. No predicted non-housing capital receipts are being taken into account, as any developments are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £13.1m at 1 April 2011 to £8.3m at 1 April 2016.

62. Previously the Council has taken steps to communicate the MTFS with staff, partners and other stakeholders. This process is still seen as good practice and a failure to repeat the exercise could harm relationships and obstruct informed debate. If Members agree, appropriate steps can be taken to circulate either the full strategy or a summarised version.

Conclusion

63. The Council is in a stronger financial position than had been anticipated. This is due to the greater level of savings in 2010/11, the transfer of non-housing property to the General Fund, savings being negotiated on key contracts and reductions in underspent budgets. The DDF is also more buoyant than anticipated due to another substantial VAT reclaim. However, there are significant uncertainties and challenges ahead. Through the proposals to retain NNDR and localise CTB the Government is adding to the existing incentive of the New Homes Bonus to encourage authorities to promote development. Those authorities that are relatively more successful in growing their council taxbase and NNDR list will gain at the expense of others. But with these opportunities comes financial risk and given the overall problems in the UK and world economies it is debateable whether now is a good time to be taking on more financial risk.

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

**Legal and Governance Implications:**
None.

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

**Consultation Undertaken:**
None.

**Background Papers:**
None.

**Impact Assessments:**
No equalities impacts.

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

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## GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2011/12 - 2015/16

| ORIGINAL 2011/12 | | REVISED FORECAST 2011/12 | FORECAST 2012/13 | FORECAST 2013/14 | FORECAST 2014/15 | FORECAST 2015/16 |
|---|---|---|---|---|---|---|
| £'000 | **NET REVENUE EXPENDITURE** | £'000 | £'000 | £'000 | £'000 | £'000 |
| 17,090 | Continuing Services Budget | 17,090 | 16,190 | 15,461 | 15,466 | 15,110 |
| -1,408 | CSB - Growth Items | -1,248 | -1,010 | 305 | 87 | 0 |
| 0 | Net saving | 0 | -300 | -600 | -500 | 0 |
| 15,682 | Total C.S.B | 15,842 | 14,880 | 15,166 | 15,053 | 15,110 |
| 1,104 | One - off Expenditure | 1,566 | 763 | 38 | 14 | 0 |
| 16,786 | Total Net Operating Expenditure | 17,408 | 15,643 | 15,204 | 15,067 | 15,110 |
| 0 | Contribution to/from (-) Insurance Res | 0 | 0 | 0 | 0 | 0 |
| -1,104 | Contribution to/from (-) DDF Balances | -1,566 | -763 | -38 | -14 | 0 |
| -171 | Contribution to/from (-) Balances | -331 | -267 | -365 | -350 | -191 |
| 15,511 | Net Budget Requirement | 15,511 | 14,613 | 14,801 | 14,703 | 14,919 |
| | **FINANCING** | | | | | |
| 7,387 | Government Support (NNDR+RSG) | 7,387 | 6,453 | 6,401 | 6,056 | 6,056 |
| 0 | RSG Floor Gains/(-Losses) | 0 | 0 | 0 | 0 | 0 |
| 7,387 | Total External Funding | 7,387 | 6,453 | 6,401 | 6,056 | 6,056 |
| 8,124 | District Precept | 8,124 | 8,160 | 8,400 | 8,647 | 8,863 |
| 15,511 | To be met from Government Grants and Local Tax Payers | 15,511 | 14,613 | 14,801 | 14,703 | 14,919 |
| | Band D Council Tax | 148.77 | 148.77 | 152.49 | 156.30 | 160.21 |
| | **Percentage Increase %** | | 0.0 | 2.5 | 2.5 | 2.5 |

## GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2011/12 - 2015/16

| | REVISED FORECAST 2011/12 | FORECAST 2012/13 | FORECAST 2013/14 | FORECAST 2014/15 | FORECAST 2015/16 |
|---|---|---|---|---|---|
| **REVENUE BALANCES** | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance B/forward | 8,570 | 8,239 | 7,972 | 7,607 | 7,257 |
| Surplus/Deficit(-) for year | -331 | -267 | -365 | -350 | -191 |
| Balance C/Forward | 8,239 | 7,972 | 7,607 | 7,257 | 7,066 |
| **DISTRICT DEVELOPMENT FUND** | | | | | |
| Balance B/forward | 3,269 | 1,703 | 940 | 902 | 888 |
| Transfer Out | -1,566 | -763 | -38 | -14 | 0 |
| Balance C/Forward | 1,703 | 940 | 902 | 888 | 888 |
| **CAPITAL FUND (inc Cap Receipts)** | | | | | |
| Balance B/forward | 18,694 | 13,146 | 9,691 | 9,118 | 8,552 |
| New Usable Receipts | 201 | 235 | 295 | 294 | 294 |
| Use of Capital Receipts | -5,749 | -3,690 | -868 | -860 | -541 |
| Balance C/Forward | 13,146 | 9,691 | 9,118 | 8,552 | 8,305 |
| TOTAL BALANCES | 23,088 | 18,603 | 17,627 | 16,697 | 16,259 |

# Report to Finance & Performance Management Scrutiny Panel

## Date of meeting: 20 September 2011

| | |
|---|---|
| **Portfolio:** | **Finance and Economic Development** |
| **Subject:** | **Government Consultation – Localising support for Council Tax in England** |
| **Responsible Officer:** | **Janet Twinn (01992–564215).** |
| **Democratic Services Officer:** | **Adrian Hendry (01992–564246)** |

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**Recommendations/Decisions Required:**

(1) **That the report on the proposed changes to Council Tax Benefit is noted; and**
(2) **That the proposed responses to the Consultation set out in Appendix 1 be agreed.**

**Executive Summary:**

Following on from announcements made in the 2010 Spending Review, the Department for Communities and Local Government has issued a consultation paper on the proposals to replace Council Tax Benefit in England with a system of 'localised support' administered by local authorities from 2013. The consultation closes on 14 October 2011.

**Reasons for Proposed Decision:**

**Other Options for Action:**

The Authority could choose not to respond to the consultation document.

**Report:**

**Introduction**

1. At the moment lower income households can qualify through the Council Tax Benefit system to pay either a reduced or a zero amount of Council Tax. In the 2010 Spending Review, the Government announced proposals to localise Council Tax Benefit and to reduce expenditure by 10% but at that time there were no details announced of the replacement scheme.

2. The Department for Communities and Local Government has now issued a consultation paper with more details of the plans for a system of local support for Council Tax. The paper confirms that Council Tax will not form part of the Universal Credit but will remain the responsibility of local authorities. Local authorities will be put in full charge of devising a scheme to provide support to pay the Council Tax but the paper also confirms that local authorities will need to reduce expenditure on the replacement scheme by 10%. It is assumed that given the

other existing budgetary pressures and cuts in grant funding that the Council will seek to achieve the 10% saving rather than fund the local scheme at current levels through growth in the Continuing Services Budget.

3. The Government believes that the new system will simplify the current complex system of criteria and allowances, establish stronger incentives for councils to get people back into work and save the taxpayer up to £480 million a year.

**How the proposed new system will work**

4. A fixed amount of money will be provided to local authorities by central government to operate a scheme providing support to pay the Council Tax. This will be an amount that is 10% lower than the current expenditure on the Council Tax Benefit scheme. Each local authority will devise their own scheme with its own qualifying criteria.

5. People of pensionable age will be protected against any reduction in support and will continue to have Council Tax Benefit assessed and awarded at existing levels and under the existing rules. This means that the savings will have to be made from claimants of working age and that cuts to working age claimants will be in excess of 10%. Based on current caseload figures, the cut in assistance with the Council Tax for working age claimants in the Epping Forest District will be 20%.

6. These new schemes must be in place by April 2013 and local authorities should be able to make adjustments to their schemes each year to accommodate local change.

**Impact on existing Council Tax Benefit caseload in Epping Forest**

7. People in receipt of Council Tax Benefit who receive either Guaranteed Pension Credit, Income Support, Job Seekers Allowance (income based) or Employment Support Allowance (income related) currently receive 100% benefit unless there are other adults in the property. These are known as ‘passported benefits’ and it could be considered that these people are the most vulnerable as they are living on the basic living needs allowance. Based on July 2011 caseload figures, there were 8895 Council Tax Benefit claimants which is broken down as follows:

| | Caseload | Weekly average CTB | Weekly expenditure |
|---|---|---|---|
| Elderly (passported) | 2858 | £21.46 | £61,333 |
| Elderly (non-passported | 1582 | £16.96 | £26,831 |
| Working Age (passported) | 3020 | £21.33 | £64,417 |
| Working Age (non-passported) | 1435 | £16.62 | £23,850 |
| Total | 8895 | | £176,431 |

8. Passported cases make up 66.1% of the caseload and 71.3% of the expenditure. Elderly cases make up 49.9% of the caseload and 50% of the expenditure. If pensioners are to be protected as well as vulnerable working age claimants, the 10% cut would be restricted to 13.5% of the caseload.

9. The savings that Epping Forest would need to achieve are set out below using the

Council Tax Benefit expenditure figures for 2011/12 as at August 2011.

| | |
|---|---|
| Annual expenditure | £10,337,739 |
| Less 10% | £1,033,774 |
| | £9,303,965 |
| Less pension age (no change allowed) 50% expenditure | £5,168,870 |
| Remainder to be used for working age (including vulnerable) | £4,135,095 |

10. This equates to an average reduction of £232.00 pa for each working age claimant which includes the vulnerable who are currently living on the basic living needs allowance. If the vulnerable working age claimants were also to be excluded from the cuts, the reduction for the working age non-passported claimants would be an average of £720.00 pa.

11. These figures are assuming that there will be no increase in Council Tax and no increase in caseload. As the caseload has been steadily increasing during recent years, it is likely that the savings required will be greater than currently predicted.

**Options for meeting the savings target**

12. It is clear that the savings will be difficult to achieve and the likelihood is that some savings will have to be made from people on the passported benefits. The Government has clearly stated that work incentives must be maintained but that will be difficult to achieve if the savings have to be made from working age people in low paid employment.

13. One approach to meet the savings target would be to reduce all payments by 20% across working age claimants. However, those currently on passported benefits do not currently pay any Council Tax so this will result in the authority collecting Council Tax from a group that are used to paying nothing. As this group do not pay anything at the moment because the income that they receive is at the minimum level that it is deemed a person requires, the collection of any sums will be difficult. This will be comparable to the Community Charge between 1990 and 1993 when local authorities had to collect 20% of the Community Charge. This scheme proved complicated to administer and difficult to collect.

14. If it is accepted that the vulnerable working age people receiving the passported benefits should be protected like pensioners, it falls upon the remainder of the working age claimants to pay significantly increased amounts of Council Tax than they currently pay. This group of people will either be working but on low earnings or they do not work but have income from sources other than the passported benefits. It is difficult to envisage how work incentives would be maintained if the total savings has to be met from this group.

15. Another approach could be to remove entitlement from certain groups such as owner occupiers or restrict entitlement to certain tenure types. Such a policy would be controversial and would necessarily affect claimants with children or disabilities. A preferred approach therefore may be to remove Council Tax support from working age people who are not disabled and do not have dependant children. However, a single unemployed person without children or disabilities currently receives £67.50 a week to live on and forcing them to pay Council Tax could reduce their income to just over £53.50 per week. Not only would this reduce their income to below the accepted minimum income levels but collection of Council Tax would be extremely difficult.

16. The Department for Work and Pensions (DWP) lobbied for a Council Tax element to be included in the Universal Credit, in the same way that a Housing element is to be paid. The Government rejected this and have made it clear that the Council Tax support should be the responsibility of local authorities. However, were the Council Tax to be paid within the Universal Credit, the DWP would not know exactly how much Council Tax people were liable to pay and

therefore people may receive a weekly amount different to their liability. The biggest problem however would be that the Universal Credit will be paid directly to claimants and not credited directly to their Council Tax account. This will lead to collection difficulties as people not used to paying anything will have to pay 100% of their liability.

17. A final option is to lobby the government as the envisaged cuts are unacceptable and that the proposed scheme needs to be altered. The consultation paper makes no mention of localising the current scheme of disregards and discounts but these could be incorporated into the scheme. Significant savings could be achieved by abolishing automatic discounts for particular categories and incorporating all support into one comprehensive means tested scheme. Savings could therefore be achieved from people more able to pay rather than just the most vulnerable in society.

**Risks of localising support for Council Tax**

18. There will be a 10% funding cut. Based on our current Council Tax Benefit expenditure this is estimated to be in the region of £1.033m. This will undoubtedly have a major impact on our current collection rate and there will be increased costs to recover monies from people who have not had to pay Council Tax before.

19. Council Tax Benefit is currently based on actual eligibility and there are no budget constraints placed on people who are eligible under the national scheme. An increase in either the Council Tax liability or an increase in the number of people claiming support for their Council Tax, will result in an increase in administration costs and increased expenditure beyond the budget allocated to the authority.

20. The timescales for implementing a local support scheme for Council Tax do not appear to be achievable. The primary legislation will not be passed until the summer of 2012 following which any scheme will need to devised, publicised, IT systems developed and for everything to be in place before February 2013 when Council Tax annual billing takes place. An implementation date of April 2014 would be more achievable and would link better with the introduction of Universal Credit.

21. There are currently three major software suppliers of Revenues and Benefits systems. We use Capita's Academy system which has approximately 130 customers using the benefits software. In the proposals, Council Tax support for Pensioners will still be paid under a national scheme whilst local authorities will devise their own individual schemes for working age people. In the timescales given, it is not likely that Capita will be able to provide software to support the national scheme and develop 130 different variations of software for each authority. Not only will this be costly for authorities as development costs will be individual and not spread amongst other authorities, but also any changes to schemes to support local change will also be costly.

22. For many years there has been much criticism of means tested benefit scheme's for being too complex. Although the various governments have always pledged to simplify the schemes they have in fact become more complex. The proposed localisation of support for working age people, together with a national scheme for pensioners, will make the support scheme even more complicated. Furthermore, with every local authority devising their own scheme there is the potential for a 'post code lottery'. The Essex Benefit Managers Group has discussed the possibility of Essex authorities working in partnership to devise local support schemes that are the same for more than one authority. However, due to different demographics within the County, it has been concluded that this will be difficult to achieve. Even if the same scheme was devised by neighbouring authorities, it would not reduce any IT development costs. There are other Essex authorities that use the Academy system but only Maldon Council uses the same operating platform. Therefore unless we devised the same system as Maldon, the burden of the cost of IT development will have to be met solely by us.

23. There are particular issues with two-tier authorities as it is the district authority who will be taking the whole risk of the scheme.

24. Implementing a new scheme with a 10% cut will be challenging because potentially controversial decisions will need to be taken by local authorities about where reductions in entitlement are to be made.

25. For many years the government has encouraged take-up of specifically Council Tax Benefit as they believe that there are many people not claiming the benefit that they are entitled to. There is no incentive for any take-up of support for Council Tax and in fact there is reason to discourage take-up.

26. Appeals against decisions taken on Council Tax Benefit are currently heard by The Tribunal Service. It is unlikely that they will also hear appeals against any decision taken on a local support scheme and therefore an internal appeals process will have to be put into place.

27. As part of Welfare Reform, it is proposed that benefit investigation work will move to a centralised investigation service run by the DWP in April 2013. At present there is little information available about the transfer of staff to the DWP but it is expected that local authorities will no longer have benefit investigation staff. However, the DWP investigation staff will not investigate any potential abuse of a local scheme. Consideration must therefore be given as to how abuse of the local scheme will be tackled.

**Resource Implications:**
There are no resource implications for commenting on the consultation paper. However, if the Council has to implement a local scheme and seeks to do this without reducing the level of benefit the Council will take on an additional annual cost in excess of £1 million.

**Legal and Governance Implications:**
No specific implications

**Safer, Cleaner and Greener Implications:**
No specific implications

**Consultation Undertaken:**
The consultation paper has been discussed with various groups representing other Essex authorities

**Background Papers:**
Localising Support for Council Tax in England – Consultation paper published by the Department for Communities and Local Government

**Impact Assessments:**

Risk Management
The key risks associated with localising support for Council Tax are set out in detail above.

Equality and Diversity
As this is a response to a consultation an Equality Impact Assessment is not relevant. If the Council is required to implement a local scheme an Equality Impact Assessment will be completed as part of that policy setting process.

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**Response to Consultation – Localising Support for Council Tax in England**

| **Section 5 – Principals of the Scheme** |
|---|
| 5a: Given the Governments firm commitment to protect pensioners, is maintaining the current system of criteria and allowances the best way to deliver this guarantee of support? |
| The current system of criteria and allowances is complex but maintaining the system will ensure protection for pensioners. However, although pensioners will be protected under the new scheme, it will be at the expense of working age people.<br><br>The consultation paper makes no mention of localising the current scheme of disregards and discounts but these could be incorporated into the scheme. Significant savings could be achieved by abolishing automatic discounts for particular categories and incorporating all support into one comprehensive means tested scheme. Savings could therefore be achieved from people more able to pay rather than just the most vulnerable in society. |
| 5b: What is the best way of balancing the protection of vulnerable groups with the need for local authority flexibility? |
| There is no definition of a vulnerable group but a case could be made for any number of groups to be considered vulnerable eg, people with disabilities, people with dependant children or people with the minimum income level. If both pensioners and working age people receiving the passported benefits are to be protected, the savings will have to be made from others who have a low income but are less vulnerable. There will therefore be a significant impact on employed working age people who will have to have their benefits significantly reduced in order to meet the reduction in budget. This will give local authorities no opportunity to maintain work incentives and will in turn create a disincentive to work. Although the principle of the scheme is to allow local authorities to devise their own locally deliverable schemes, the more groups that are ultimately protected will result in local authorities having less flexibility to devise a workable local scheme as it will ultimately only apply to a small number of residents. |

| **Section 6 – Establishing Local Schemes** |
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| 6a: What, if any additional data and expertise will local authorities require to be able to forecast demand and take-up? |
| Due to the 10% budget cut, there will be a disincentive to undertake any take-up work. Any increase in caseload will result in larger cuts to existing claimants. |
| 6b: What forms of external scrutiny, other than public consultation, might be desirable? |
| Local authorities will need to submit their proposed scheme to some form of public scrutiny which may result in local interest groups lobbying MP's, Members etc. |
| 6c: Should there be any minimum requirements for consultation, for example, minimum time periods? |
| No comment |
| 6d: Do you agree that councils should be able to change schemes from year to year? What if any restrictions, should be placed on their freedom to do this? |
| Councils should be able to modify their scheme if changes in local demographics necessitate changes to the scheme. Any changes will be expensive to implement as publicity will be required, IT software changes will need to be made and training will |

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| need to undertaken. It is therefore unlikely that Councils will make major and regular changes to their scheme. Councils will therefore be placing their own financial restriction on changes without any restrictions imposed by the Government. |
| 6e: How can the Government ensure that work incentives are supported, and in particular, that low earning households do not face high participation tax rates? |
| Localising support for Council Tax whilst protecting pensioners and other vulnerable groups will not protect low earning households from increases in tax rates as it will primarily be this group that will have their Council Tax Benefit reduced. Low earning households are better protected by keeping the current national scheme whereby people who need financial support receive it without authorities having to decide who is the most needy. |

| **Section 7 – Joint Working** |
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| 7a: Should billing authorities have default responsibility for defining and administering the schemes? |
| No comment |
| 7b: What safeguards are needed to protect the interests of major precepting authorities in the design of the scheme, on the basis that they will be a key partner in managing financial risk? |
| No comment |
| 7c: Should local precepting authorities (such as parish councils) be consulted as part of the preparation of the scheme? Should this extend to neighbouring authorities? |
| No comment |
| 7d: Should it be possible for an authority (for example, a single billing authority, county council in a two-tier area) be responsible for the scheme in an area for which it is not a billing authority? |
| No comment |
| 7e: Are there circumstances where Government should require an authority other than the billing authority to lead on either developing or administering a scheme? |
| No comment |

| **Section 8 – Managing Risk** |
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| 8a: Should billing authorities normally share risks with major precepting authorities? |
| No comment |
| 8b: Should other forms of risk sharing (for example between district councils) be possible? |
| No comment |
| 8c: What administrative changes are required to enable risk sharing is used appropriately? |

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| No comment |
| 8d: What safeguards do you think are necessary to ensure that risk sharing is used appropriately? |
| No comment |

| **Section 9 – Administrating Local Schemes** |
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| 9a: In what aspects of administration would it be desirable for a consistent approach to be taken across all schemes? |
| A consistent approach across all schemes will be taking away the principle that schemes should be devised locally. The use of National Insurance Numbers is already established as a method of checking identity and allowing data sharing and this should be retained. However, as different data is likely to be held by different authorities, the usefulness of data sharing would be limited. If a consistent approach to local schemes is desired, there should be a national scheme as at present.<br><br>With regard to minimizing complexity for claimants who move between authorities, this will not be possible unless there is a national scheme that applies to all local authorities. Local authorities may work together to devise the same scheme in neighbouring authorities but this will be difficult as local needs vary between authorities.<br><br>The consultation recognizes that there will be an increase in the level of Council Tax write off's where relatively small balances payable by people on low incomes become uncollectable. In Epping Forest the increase in Council Tax for working age people will be 20%, the same as the level of Community Charge that had to be collected. Experience from that scheme shows that the collection rate falls, the cost of collection rises and the level of increased write off's impacts on the Council Tax base. The burden then falls on other Council Tax payers. As different authorities may choose to write off more debts than other authorities, this creates inequality. |
| 9b: How should this consistency be achieved? Is it desirable to set this out in Regulations? |
| With different schemes in each authority, it could end up as a postcode lottery as to whether people would qualify for help with their Council Tax. From an administration point of view, there would have to be individual bespoke IT systems etc. plus the resources required to cover appeals, fraud etc. This will inflate administration costs and offer little scope for efficiencies. If the desire is to have consistency across council schemes, this will only be achieved by Regulations and contradicts the intention to allow authorities to devise their own schemes based upon local issues. The current timescales already appear unachievable without having to create further Regulations. |
| 9c: How should local authorities be encouraged to use these approaches (run-ons, advance claims, retaining information stubs) to provide certainty for claimants? |
| Advance claims and retaining information on previous applications reduces administration and can speed up claim processing. However, run-ons add a complication to schemes not a simplification, and payments from a limited budget may then be made to people who are able to afford the full Council Tax as they are in well paid employment. |
| 9d: Are there any other aspects of administration which could provide greater |

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| certainty for claimants? |
| The greatest certainty would be provided by retaining a single national scheme. |
| 9e: How should local authorities be encouraged to incorporate these features into the design of their schemes? |
| No comment |
| 9f: Do you agree that local authorities should continue to be free to offer discretionary support for council tax, beyond the terms of the formal scheme? |
| If local authorities are to devise local schemes there should be no requirement for additional discretionary support. |
| 9g: What, if any, circumstances merit transitional protection following changes to local schemes? |
| The various transitional protection schemes over the years have only complicated the benefit schemes for the public, the staff administering the schemes and the software suppliers. It is less complex when altering a scheme for it to be applied to everyone from a fixed date without having to apply transitional protection. |
| 9h: Should arrangements for appeals be integrated with the new arrangements for council tax appeals? |
| This could be considered but appeals against billing deal with very different issues to a means tested benefit and there is concern that there may therefore be a lack of expertise. |
| 9i: What <u>administrative</u> changes could be made to the current system of council tax support for pensioners to improve the way support is delivered (noting that factors determining the calculation of the award will be prescribed by central Government)? |
| No comment |

| **Section 10 – Data Sharing** |
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| 10a: What would be the minimum (core) information necessary to administer a local council tax benefit scheme? |
| Data sharing with the DWP is already in place and this must continue. The DWP have recently invested a lot of resource when developing ATLAS so it must be assumed that the intention has always been to continue with this data sharing. The Housing Benefit Matching Service has also proven to be invaluable to local authorities and should also continue. |
| 10b: Why would a local authority need any information beyond this "core", and what would that be? |
| The DWP data will only give information on state benefits and the local schemes may not be devised solely on people being in receipt of state benefits. With the intention that local schemes should not remove incentives to work, it must be assumed that it is expected that working people will still receive support and therefore earnings evidence will still be required in addition to other types of income and capital. |
| 10c: Other than the Department for Work and Pensions, what possible sources of information are there that local authorities could use to establish claimants' circumstances?<br>Would you prefer to use raw data or data that has been interpreted in some way? |

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| In many cases it is only the claimant who can tell authorities of their circumstances. This is likely to need a person to therefore make two applications, one to the local authority and one to the DWP for their Universal Credit claim. |
| 10d: If the information were to be used to placed the applicants into categories, how many categories should there be and what would be the defining characteristics of each? |
| No comment |
| 10e: How would potentially fraudulent claims be investigated if local authorities did not have access to the raw data? |
| It is proposed that Benefit Investigation staff will move to the Single Fraud Investigation Service from April 2013 and therefore local authorities will no longer have the expertise. However, the Single Fraud Investigation Service are unlikely to be willing to investigate potentially fraudulent claims as there will be a different set of rules for every local authority. The responsibility must therefore lie with the local authority although the investigation expertise that has been built up over the years will have already been taken away from each authority. The existing powers of access to various sources of information would need to be maintained. |
| 10f: What powers would local authorities need in order to be able to investigate suspected fraud in council tax support? |
| Local schemes would not necessarily enable local authorities to undertake any prosecution work unless the offence was serious enough that that the Fraud Act could apply. A local scheme would not be backed up by legislation and therefore a prosecutable offence could not be committed. However, even if there was legislation for each individual scheme, a person could be prosecuted for an offence in one authority yet it may not be considered an offence in a neighbouring authority. |
| 10g: In what ways could the Single Fraud Investigation Service support the work of local authorities in investigating fraud? |
| If local authorities could not retain their existing powers, they would need to rely on the Single Fraud Investigation Service to carry out checks and supply information. However there is a concern that requests for information for a local scheme would not be given a high priority by SFIS. In addition, as offences cannot be investigated under the Social Security legislation, it is unlikely that SFIS will supply any information to local authorities. |
| 10h: If local authorities investigate possible fraudulent claims for council tax support, to what information, in what form would they need access? |
| Local authorities should be allowed to retain their existing powers and access to existing data sources such as Experian. |
| 10i: What penalties should be imposed for fraudulent claims, should they apply nationally, and should they relate to the penalties imposed for benefit fraud? |
| The imposition of penalties will be reliant on legislation being in place making any abuse of the local schemes an offence. Abuse of a local scheme supporting Council Tax is still taking money from the public purse and therefore there should be a system of national penalties. Localising penalties will create a postcode lottery as to whether a person is penalised for committing fraud and will send the wrong message to the public. |
| 10j: Should all attempts by an individual to commit fraud be taken into account in the |

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| imposition of penalties? |
| More than one attempt to commit fraud shows an intent that a person will continue to make further attempts unless they are penalised. All attempts should therefore be taken into account when imposing penalties. A system of 'two strikes and you're out' could be adopted when devising local schemes. |

| **Section 11 - Funding** |
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| 11a: Apart from the allocation of central government funding, should additional constraints be placed on the funding councils can devote to their schemes? |
| Local authorities will find it difficult to fund a local scheme for working age people within a restricted budget. If it is to be a scheme of localised support, further constraints should not be placed on authorities.<br><br>The Paper is silent on how year to year increases in the level of grant will be planned and managed and the relationship between increases in Council Tax Benefit Grant and the overall regime of Council Tax capping. It is possible that Councils will be in the strange position of having to raise Council Tax simply to raise enough additional resources to pay for Council Tax Benefit . |
| 11b: Should the schemes be run unchanged over several years or be adjusted annually to reflect changes in need? |
| If it is to be a local scheme, authorities should have the ability to change their scheme based upon changes in local need. If there are increases in Council Tax without an increase in the Government funding, authorities will be forced to change their schemes. |

| **Section 12 – Administrative Costs** |
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| 12a: What can be done to help local authorities minimise administration costs? |
| Introducing the new Council Tax Benefit system from 1st April 2013 is a challenging and probably undeliverable target. Implementing a new system to replace Council Tax Benefit will involve the procurement of new IT systems or significant adaptations to existing systems. Given the timetable for decisions, with primary legislation and secondary legislation not due until 2012, there will be insufficient time to organise and publicise the administration of the scheme as well as develop and procure new IT systems in time for an April 2013 implementation.<br><br>The development of individual IT systems for each authority whilst still retaining the existing IT systems for pensioners will significantly increase costs to local authorities. The uncertainty as to what will happen to benefit staff is also an issue to be considered. The staff at present do not know whether they will remain with local authorities or moved to the DWP for Universal Credit or to the Single Fraud Investigation Service. |
| 12b: How could joint working be encouraged or incentivised? |
| No comment |

| **Section 13 – Transitional & Implementation Issues** |
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| 13a: Do you agree that a one-off introduction is preferable? If not, how would you move to a new localised system while managing the funding reduction? |
| No comment |

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| 13b: What information would local authorities need to retain about current recipients / applicants of council tax benefit in order to determine their entitlement to council tax support? |
| No comment |
| 13c: What can Government do to help local authorities in the transition? |
| No comment |
| 13d: If new or amended IT systems are needed what steps could Government take to shorten the period for design and procurement? |
| New and amended IT systems will definitely be required but the timescales to develop and procure these is already too tight. The timetable for introduction of the replacement Council Tax Benefit scheme should be reconsidered. |
| 13e: Should applications, if submitted prior 1 April 2012, be treated as if submitted under the new system? |
| If applications are accepted prior to April 2012, the data held may be incorrect and out of date if there have been un-notified changes in circumstances. |
| 13f: How should rights accrued under the previous system be treated? |
| No comment |

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