

Committee Agenda



**Epping Forest
District Council**

Finance and Performance Management Cabinet Committee Monday, 29th January, 2007

Place: Committee Room 1, Civic Offices, High Street, Epping
Room: Committee Room 1
Time: 6.30 pm
Democratic Services Officer: Graham Lunnun, Research and Democratic Services
Tel: 01992 564244 Email: glunnun@eppingforestdc.gov.uk

Members:

Councillors J Knapman (Chairman), Mrs D Collins, Mrs A Grigg, S Metcalfe and C Whitbread

PLEASE NOTE THE START TIME OF THIS MEETING

BUSINESS

1. APOLOGIES FOR ABSENCE

2. MINUTES (Pages 5 - 8)

To confirm the minutes of the last meeting of the Committee held on 11 December 2006 (attached).

3. DECLARATIONS OF INTEREST

(Head of Research and Democratic Services) To declare interests in any item on this agenda.

4. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs 6 and 25 of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (non-executive bodies), any item raised by a non-member shall require the support of a member of the Committee

concerned and the Chairman of that Committee. Two weeks' notice of non-urgent items is required.

5. INTERNAL AUDIT - MONITORING REPORT- OCTOBER/DECEMBER 2006 AND WORK PROGRAMME - JANUARY/MARCH 2007 (Pages 9 - 22)

(Chief Internal Auditor) To consider the attached report on work undertaken by Internal Audit between October and December 2006 and the proposed work plan for January and March 2007.

6. SUNDRY INCOME AND DEBT POLICY (Pages 23 - 40)

(Head of Finance) To consider the attached report.

7. COUNCIL BUDGETS 2007/08 (Pages 41 - 122)

(Head of Finance) To consider the attached report.

8. CORPORATE GOVERNANCE GROUP (Pages 123 - 128)

To consider the minutes of the Corporate Governance Group meetings held on 1 November and 20 December 2006 (attached).

9. EXCLUSION OF PUBLIC AND PRESS

Exclusion: To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
9	Corporate Governance Group	3

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement: Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) All business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest.
- (2) At the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press.

- (3) Any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers: Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

10. CORPORATE GOVERNANCE GROUP (Pages 129 - 132)

To consider restricted minutes from the meetings held on 1 November and 20 December 2006 (attached).

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EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Finance and Performance Management Cabinet Committee **Date:** Monday, 11 December 2006

Place: Civic Offices, High Street, Epping **Time:** 6.05 - 7.40 pm

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

Other Councillors: A Green, D Jacobs

Apologies: S Metcalfe

Officers Present: J Gilbert (Head of Environmental Services), P Haywood (Joint Chief Executive), G Lunnun (Democratic Services Manager), P Maddock (Assistant Head of Finance), R Palmer (Head of Finance), J Preston (Head of Planning and Economic Development), A Scott (Head of Information, Communications and Technology) and I Willett (Head of Research and Democratic Services) B Moldon (Senior Finance Officer)

39. MINUTES

RESOLVED:

That the minutes of the meeting of the Committee held on 20 November 2006 be taken as read and signed by the Chairman as a correct record.

40. DECLARATIONS OF INTEREST

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

41. ANY OTHER BUSINESS

(a) Time of meetings

RESOLVED:

That in future, meetings of this Committee commence at 6.30 p.m.

42. RISK MANAGEMENT - UPDATED CORPORATE RISK REGISTER

Members were advised that they had agreed to receive updates to the Action Plans and the Corporate Risk Register twice yearly. On 3 October 2006, the Risk Management Group had reviewed the existing Action Plans and where necessary had developed or amended Action Plans in view of new ratings. The new Action Plans were required for risks that had moved from below the tolerance line to above the line following the updated ratings.

Attention was drawn to the Action Plans for each risk.

The Committee was advised that there would be a comprehensive review of the Register early in 2007 which would include a Members' Seminar.

RESOLVED:

- (1) That the updated Corporate Risk Register be adopted; and
- (2) That the Register be reviewed at the meeting of the Committee to be held on 26 March 2007.

43. DRAFT GENERAL FUND BUDGET SUMMARY (INCLUDING CSB AND DDF LISTS)

The Committee considered a report providing the first oversight of the draft General Fund Budget for 2007/08. Members noted that the individual portfolio budgets would be considered in detail at the Finance and Performance Management Scrutiny Panel meeting on 15 January 2007 following which the budget setting process would be concluded at meetings of this Cabinet Committee on 29 January 2007, the Overview and Scrutiny Committee on 1 February 2007, the Cabinet on 5 February 2007 and the full Council on 20 February 2007.

The Head of Finance reported that the latest version of the Statement of Recommended Practice that local authorities were required to follow in producing their budgets and accounts had removed requirements in relation to Capital Charges and the Asset Management Revenue Account. Whilst this change had been welcomed it had created a considerable amount of additional work in producing the draft budgets.

The Head of Finance also advised that the confirmed figures from the Department for Communities and Local Government reflected the draft Local Government Finance Settlement agreed last year. This Council's grant for 2007/08 was due to increase by 6.2%.

The Committee considered a draft General Fund Estimate Summary, CSB growth/savings and DDF lists including items not yet approved by the Cabinet. In considering these matters, members took account of the previously agreed budget guidelines regarding CSB net expenditure, the use of balances and the amount of the District Council Tax.

Members noted that the current CSB for 2007/08 including approved growth bids amounted to £17.072m and therefore exceeded the previously agreed guideline by £72,000. In addition, other items not yet approved by the Cabinet, some of which were in respect of statutory responsibilities amounted to £252,000.

The Civil Engineering and Maintenance Portfolio Holder advised that he would be preparing alternative proposals for off-street car parking increased income focusing on the medium and long-term tariffs rather than the short-term tariffs. The Committee noted that whatever option was finally agreed it was unlikely to achieve a 3.5% increase plus recovery of the full estimated £75,000 lost income from free Saturday car parking agreed at the last meeting of this Committee. The Joint Chief Executive questioned the lead-in time for introducing new fees and pointed out that if the increases took effect after the beginning of the new financial year on 1 April 2007 there would be a further loss as the estimated income had been calculated on the

basis of a full financial year. Members agreed that car parking charges for 2007/08 needed to be agreed by the Cabinet on 18 December 2006 in order to ensure that increased charges took effect on 1 April 2007.

RECOMMENDED:

- (1) That the following previously agreed budget guidelines be confirmed:
 - (a) the ceiling for CSB net expenditure be no more than £17m including net growth;
 - (b) balances continue to be aligned to the Council's net budget requirement and balances be allowed to fall no lower than 25% of the net budget requirement;
 - (c) the District Council Tax be increased by no more than the rate of increase in the Retail Price Index;
- (2) That the following be agreed in relation to CSB growth, DDF and Capital items for 2007/08 not yet approved by the Cabinet:

CSB

- (a) Customer Services Transformation Programme - £99,000 - delete;
- (b) Emergency Planning Officer - £19,000 - delete;
- (c) Elections - additional costs of new arrangements - £14,000 - delete as being met from existing capital provision;
- (d) Elections - running costs for new signature comparison software - £3,000 - include in the draft list of CSB growth items;
- (e) Electoral Registration - £6,000 - supplementary estimate to be sought for 2006/07 and carried forward;
- (f) Routine Building Maintenance Programme - £62,000 (net) - to be considered by the Cabinet on 18 December 2006;
- (g) Audit and Governance Committee - running costs – £4,000 to be considered by the Cabinet on 18 December 2006 but increased costs to be absorbed within existing budgets;
- (h) Councillors legal expenses cover - £2,000 - to be considered by the Cabinet on 18 December 2006 but increased costs to be absorbed within existing budgets;
- (i) Environmental Health Practitioner - £41,000 - include in the draft list of CSB growth items;
- (j) On-going costs - elections management software - £3,000 - delete, subject to confirmation that this is a duplication of (d) above;
- (k) Finders Fee Scheme - £5,000 – include in draft list of CSB growth items;

DDF

- (l) Customer Services Transformation Programme - £442,000 - delete;
- (m) Comfort Cooling - £100,000 - delete;
- (n) Civic Offices Maintenance - £23,000 - to be considered by the Cabinet on 18 December 2006;
- (o) Upgrade to Estates Management System - £8,000 - to receive further consideration;
- (p) Audit and Governance Committee - Member Training - £2,000 - to receive further consideration;
- (q) Consultancy Private Sector Assistance Policy - £10,000 - include in the draft DDF list;

Capital

- (r) Civic Offices Maintenance - £56,000 - to receive further consideration;
 - (s) Printing Plate Maker - £35,000 - delete (replacement to be sought when existing machine fails); and
 - (t) Solar Water Heating - £42,000 - delete;
- (3) That as part of the budget setting process, meetings be held between the Finance Performance Management and Corporate Support Services Portfolio Holder, the Leader of the Council and Heads of Service in order to review further the amended CSB growth items and existing CSB expenditure in order to secure a reduction in the total CSB net expenditure for 2007/08 to no more than £17m and to review further the list of DDF items; and
- (4) That the Cabinet resolve car parking charges for 2007/08 at its meeting on 18 December 2006.

CHAIRMAN

Agenda Item 5

INTERNAL AUDIT- MONITORING REPORT OCTOBER – DECEMBER 2006 AND WORK PLAN JANUARY - MARCH 2007

The Committee is requested to note the following issues arising from the Internal Audit Team's third quarter monitoring report for 2006/07:

- (a) The reports issued between October and December 2006 and significant findings (Appendix 1);
- (b) The Audit follow up status report (Appendix 2);
- (c) The Work Plan January - March 2007 (Appendix 3); and
- (d) The 2006/07 Audit Plan status report (Appendix 4)

Introduction

1. This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2006, and details the overall performance to date against the Audit Plan for 2006/07. The report also contains the Internal Audit work plan for the fourth quarter 2006/07 and a status report on previous audit recommendations.

2. Resources Available:	3 months Oct-Dec 06	12 months orig. estimate 06/07
Number of days required to meet the audit plan	<u>248</u>¹	<u>990</u>¹
Number of days available based on staff in post	305	1430
Less statutory and annual leave	(23)	(166)
Sick leave	(43)	(32)
Vacancy factor	-	(30)
Training	(10)	(35)
Planning, supervisory, management and non-chargeable	<u>(34)</u>	<u>(177)</u>
Available Audit days	195 ²	990 ²
Bought in Days	0	0
Total Audit Days	<u>195</u>	<u>990</u>

Note¹ audit days available if full establishment achieved

Note² actual audit days in period

Current Staffing Position

3. The Unit has an establishment of 5.5 full time equivalent (fte) posts. The Audit Assistant half post is vacant, leaving 5 fte staff available during 2006/07. The vacant half post is being held for the time being to provide some budget flexibility to meet the cost of specialist auditors and external contractors, who undertook specific audits within the approved Plan earlier in the year. This position will be maintained in the future, and has been formalised in the 2007/08 budget.
4. Sickness during the third quarter amounted to 43 days compared to 10, 35 and 9.5 days respectively in the preceding three quarters. The majority of the sickness in

2006/07 has related to the certificated long term sickness of two members of the Team. Therefore, whilst the average level of sickness per member of staff over the last 12 months has been 19 days and is clearly of concern, the figures are explained by this factor. The effect of sickness levels on the delivery of the Audit Plan is referred to in paragraph 18. Sickness continues to be monitored and managed in accordance with the Council's management of absence policy.

Work carried out in the period

5. The audit reports issued in the third quarter are listed in paragraph 10 below. The audit opinions and main conclusions flowing from these reports are attached at Appendix 1.
6. The Audit Team has also provided support to management on a number of corporate issues and has performed a range of tasks including standing membership of project teams. Topic areas include continued participation in the officer Use of Resources and Value for Money project teams, and the review of the Council's Contract Standing Orders and Financial Regulations.
7. Supervision and management time has included the normal management and review functions undertaken by the Chief Internal Auditor, who has also been involved in the corporate activities referred to in the previous paragraph.
8. The time taken on investigation work during this quarter amounted to 21 days and primarily relates to a specific issue concerning one employee's attendance at work. The time spent on this investigation includes observation by three members of the Team, production of statements and other notes, attendance at meetings and a disciplinary hearing, preparation of the audit report, and preparation for a subsequent appeal. The investigation is referred to in paragraph 12. Advice was also given on two other separate issues, one relating to the activities of a member of staff while on sick leave, and the other a discrepancy on a sundry debtor account relating to a third party.
9. The Audit Commission has been consulted with on the content of this report and the fourth quarter audit plan for 2006/07.

Reports Issued and Significant Observations

10. The following audit reports were issued in the third quarter:

Investigation

Housing Service Cleaner – attendance and time keeping

Systems Audits

Housing Benefits
Bank Reconciliation
Non-Domestic Rates
Corporate External Funding*
Corporate Training
Housing Rents - 'Tolerated Trespassers'
Fleet Operations
Grounds Maintenance
Cash Office spot checks
Office Contracts follow up
North Weald Airfield follow up

* denotes audit undertaken by contractor

11. In addition to the audits listed above, an audit of Treasury Management was in progress at 31 December. This audit is not included in the performance figures in paragraph 17.

12. The main conclusions from the systems audits undertaken in the last quarter indicated that systems were generally operating satisfactorily in those areas, and only isolated errors or control issues were identified.

Some of the key findings from the third quarter audits are outlined below:

Investigation - Housing Estates Cleaning

Over the period investigated a mobile operative worked considerably less than his contracted hours, and on at least two days worked for less than three hours per day. This behaviour amounts to theft of time.

Outcome: Disciplinary action and dismissal (now subject to appeal)

External Funding

External funding is not given sufficient priority in corporate terms across the Council. There is a need for a strategic approach, corporate support, central co-ordination, dedicated financial and staffing resources, and a framework to be put in place.

Outcome: A working Party has been established to develop an external funding strategy, under the leadership of the Head of Research and Democratic Services.

Corporate Training

The system of corporate training is in need of review, in order to encourage and motivate staff to attend courses that support their individual development plans...there was a breach of Financial Regulations in the invoice certification process, in an area of the Unit where there was long term staff absence during 2006.

Outcome: A new Learning and Development Advisor has been appointed, and a priority task is the review of the Council's training programme. The need for separation of duties in the invoice certification procedure has been reiterated.

Fleet Operations

Fleet Operations has continued to operate since the in principle member decision in January 2005 to close the facility... A fully costed analysis, including a breakdown of the costs of fleet maintenance and MOT testing provision, and a comparison with external providers, would assist in making a final decision regarding the future provision of Fleet Operations.

Outcome: A detailed financial analysis will be prepared.

North Weald Airfield

It is of concern that there are still examples of departures from Financial Regulations, and other weaknesses, despite reminders to staff and the introduction of a Finance training course, which Officers at the Airfield have attended.

Outcome: Reminder to management and staff about Financial Regulations requirements.

Other Reporting Issues

13. When following up previous audits it is normally found that the majority of recommendations are being implemented by Service management. However it is sometimes found that not all previously agreed recommendations have been carried out within the agreed timescales. Attached at Appendix 2 is a summary schedule designed to monitor the follow up of audits carried out in 2005/06, as an aid to ensuring timely and adequate follow up both by Internal Audit and Service Management.

Three-month work plan (Appendix 3)

- 14 The Audit Commission requires all of the Council's main financial systems to be audited during 2006/07, and the majority of these audits were completed by the end of the third quarter. It is recognised that audit coverage is also required within Council services other than Finance. For this reason the Audit Plan for the fourth quarter covers a broad range of Service areas.

Audit Plan 2006/07 (Appendix 4)

15. The current status of the planned audits in this year's Audit Plan, as approved in April 2006, is set out at Appendix 4. Two investigations were added to the Plan during the year, and one audit (Housing Rents) was extended to embrace a wider scope, at the request of the Head of Service.

16. Whilst the majority of planned audits will be completed by 31 March 2007, a small number will slip to 2007/08 or not be carried out, partly due to the incidence of sickness within the Audit Team, and partly due to changed operational circumstances within the Service concerned. Where appropriate, prioritisation has been based on a risk assessment. The justification behind these decisions is outlined below:

- **Waste Management Contract**
Provision was made in the current year plan to follow up an earlier audit of the contract monitoring arrangements with SHWM. The current arrangements for the management of the contract are being overseen by Members and Chief Officers, and it is considered unnecessary to review the system at this stage.
- **Creditors IT**
The Essex Marketplace system was rolled out during the second half of 2006/07. Audit staff were trained in the use of the system for their own purposes, and were consulted on the specification for the system. It would be beneficial to review the system, and the audit reports produced by it, in the early part of 2007/08, when more data is available on the use of the system.
- **Section 106 (Planning) System**
The system has been subjected to one follow up review and is now operating satisfactorily. An officer group meets periodically to consider current schemes and opportunities, and the first annual report to Members was submitted in 2006/07.
- **Freedom of Information follow up**
One of the main issues in the earlier audit report related to the assignment of a co-ordination role to ensure a consistent approach to meeting deadlines and providing information. This has now been implemented and it is considered that the small number of other issues can be dealt with by correspondence.
- **Grants follow up**
The Portfolio Holder for Community Wellbeing requested a briefing on recent audits of grant award processes earlier this year, and has supported the recommendations made. She has suggested that it would be preferable to conduct a detailed audit in 2007/08, after a full year's operation of revised procedures, rather than a more limited follow up in the current year.
- **Reserve Items**
A number of reserve items, included in the Appendix, were included in the original Audit Plan for 2006/07. In the event it was not necessary to bring these topics forward, but they will be included in the list of topics for consideration as part of the Audit coverage for 2007/08.

Performance Management

17. The Internal Audit Team has local performance indicator targets to meet in 2006/07. The specific LPs for Audit are set out below:

	Actual 2004/05	Actual 2005/06	Target 2006/07	Actual Apr-June 2006/07	Actual July- Sep 2006/07	Actual Oct-Dec 2006/07	Cumulative Apr – Dec 2006/07
% Planned audits completed	86%	86%	85%	72%	67%	75%	71%
% chargeable "fee" staff time	64%	67%	65%	68%	74%	60%	67%
Average cost per audit day (inc contractors in 05/06, 06/07)	£297	£292	£285	£304	£308	£356	£322
% User satisfaction	80%	85%	80%	75%	86%	84%	82%

18. There has been some slippage in the achievement of the target for the percentage of planned audits completed, but the position is expected to improve by the end of the year, despite the recent pressure caused by staff sickness.
19. The 'chargeable' staff time percentage and unit cost figures have also been affected by sickness levels, which has prevented the target average cost of £285 per day from being met. A reduction of half a post, as part of the budget process for 2006/07, has affected the recovery of fixed overheads, which also has an impact on unit costs. Contractors were used earlier in the year, and within budget, to undertake two planned audits, and the associated costs and days are reflected in the overall cumulative unit cost of £322 per audit day for the first nine months.

Training

20. During the third quarter EFDC hosted a training event on risk based auditing for the in-house team and several auditors from across Essex. The event was facilitated by an external trainer and provided an opportunity to consider an alternative approach to auditing in a risk aware organisation.

**Summary of audits completed during Quarter 3
October - December 2006**

Report No.	Title	Service	Assurance Rating/Audit Opinion	Conclusions/Comments
411	<u>Investigation</u> Housing Estates Cleaning	Housing	<p><i>Limited Assurance</i> Over the period investigated a mobile operative worked considerably less than his contracted hours, and on at least two days worked for less than three hours per day. This behaviour amounts to theft of time.</p> <p>It was concluded, on the balance of probabilities, that the employee has also been 'moonlighting' during working hours.</p>	<p>Weaknesses in the supervisory process provided the opportunity for the employee to exploit the system. Procedural changes are now required to reduce the possibility of such actions by mobile operatives occurring in the future.</p> <p>It is not clear from the documentation on file, whether sufficient scrutiny was exercised over the employee's previous job references, to determine his suitability for the post with EFDC.</p>
402	<u>Systems Audits</u> External Funding	All	<p><i>Limited Assurance</i> External funding is not given sufficient priority in corporate terms across the Council. There is a need for a strategic approach, corporate support, central co-ordination, dedicated financial and staffing resources and a framework to be put in place for securing and managing external funding.</p>	<p>It should be understood that there is a range of funding opportunities available to Local Authorities. However, an investment of time and resources is required in order to create the capacity needed to take advantage of these opportunities to the benefit of the Council in meeting its key service objectives.</p>

Report No.	Title	Service	Assurance Rating/Audit Opinion	Conclusions/Comments
407	Cash Offices	Finance/ Corporate	<i>Satisfactory Assurance</i> Cash floats are generally held securely and satisfactory controls are in place. However, Management should risk assess the present security arrangements in place at the cash offices to ensure that appropriate measures are in place to protect staff.	The cash floats and petty cash held at the cash offices all agreed to the balances recorded in Finance. Stamp purchases for Epping Forest Museum should be made in future via petty cash.
406	Housing Benefits	Finance	<i>Satisfactory Assurance</i> The systems and controls for housing and council tax benefits are generally operating satisfactorily. System reconciliation should be completed promptly and regularly. An action plan has been agreed to address minor weaknesses.	Greater assurance on the recovery of overpayments will be achieved with the implementation of the new IT system, as this will have an automated interface with the corporate sundry debtors system.
401	Grounds Maintenance	Leisure	<i>Satisfactory Assurance</i> The systems and controls for the management of grounds maintenance are operating satisfactorily. Minor weaknesses were identified and have been addressed.	The General Manager had attended the Internal training course "Finance for Managers" and from that point on had ensured that separation of duties had been applied to purchasing and authorisation of financial documentation.
405	Corporate Training	Human Resources	<i>Limited Assurance</i> The system of corporate training is in need of review, in order to encourage and motivate staff to attend courses that support their individual development plans, and link to the Council's performance management framework.	There was a breach of Financial Regulations in the invoice certification process, in an area of the Unit where there was long term staff absence during 2006. Unit costs for courses are sometimes high because courses are being run under capacity due to lack of interest or failure to attend.

Report No.	Title	Service	Assurance Rating/Audit Opinion	Conclusions/Comments
410	Housing Rents 'Tolerated Trespassers'	Housing Services	<i>Satisfactory Assurance</i> The system for defining, recording and monitoring tolerated trespassers is operating satisfactorily and there are sound administrative procedures in place.	A sample showed that all previous tenants who were now classified as tolerated trespassers had breached court orders, had been notified of their change in status, and were now shown as tolerated trespassers, with a small number having possession orders for eviction. A minor error was identified by Housing Management when collating documents for the audit, however this only had a marginal effect on the reported BVPI 66a figures for 2005/06.
403	Fleet Operations	Works	<i>Limited Assurance</i> Adequate controls are in place within Fleet Operations to provide assurance in the controls in place, with the exception of open ended orders, which will be addressed by the introduction of the I&DEA Marketplace.	Fleet Operations has continued to operate since the in principle member decision in January 2005 to close the facility. The facility has provided support for the Refuse Collection Service and is linked to the use of Langston Road depot for the time being. A fully costed analysis, including a breakdown of the costs of fleet maintenance and MOT testing provision, and a comparison with external providers, would assist in making a final decision regarding the future provision of Fleet Operations.
409	Bank Reconciliation	Finance	<i>Satisfactory Assurance</i> The procedures and controls for the reconciliation of the main Payments and Income accounts operated within the Authority are operating satisfactorily, although the reconciliation procedure for the latter account should be reviewed.	The main Payments and Income accounts were found to have been reconciled on a timely basis, independently reviewed and fully documented. Errors were dealt with promptly and there was adequate segregation of duties. However The Seedbed Centre Accounts and the Bank of Scotland Accounts are not reconciled on a regular basis.

Report No.	Title	Service	Assurance Rating/Audit Opinion	Conclusions/Comments
408	Non Domestic Rates	Finance	<p><i>Satisfactory Assurance</i> The system for recovery of NDR debts is generally operating satisfactorily, but some improvements could be made, particularly in the areas of internal checking and write off procedures.</p>	<p>Recovery action taken is supported by documentary evidence, and relevant accounts are updated to record recovery action. Recovery action is initiated and recorded promptly, and recovery action taken is appropriate.</p> <p>Two of the agreed actions from the previous audit report (Collection & Refunds) remain outstanding due to the difficulties in rectifying the accounts in credit, following the data conversion from Logos. Management continue to address this issue.</p>
397	Office Contracts Follow up	Legal, Admin and Estates	<p><i>Limited Assurance</i> The agreed actions from the previous audit are now generally in place. However, the photocopying contract expired in January 2006 and the present arrangements do not comply with Contract Standing Orders.</p>	<p>The new office cleaning contract has been in place since July 2006, but it was not possible to review the performance of the contract as monitoring procedures had not been fully implemented at the time of the audit.</p>
412	North Weald Airfield follow up	Leisure	<p><i>Limited Assurance</i> There are still examples of departures from Financial Regulations, and other weaknesses, despite reminders to staff and the introduction of a corporate Finance training course, which Officers at the Airfield have attended.</p>	<p>Improvements have been made and most of the agreed actions have been implemented since the previous audit, however overtime claims are still significant, and in excess of the current budget.</p> <p>The improvements over the past year are contributing to improved systems of control, and ultimately have the potential to lead to greater efficiency.</p>

Internal Audit Report Control Sheet – Follow Up Audits

Appendix 2

Ref.	Report Title	Client	Date Issued	Agreed Actions	Agreed Actions in place	Time of Follow up	Outstanding Issues post follow up
	Main Audits 2005/06						
320	Waste Management	Environmental	05/05	9		07/08	
328	Sundry Debtors	Finance	06/05	10	8	Qtr 1	Procedures, credit rating of debtors outstanding
329	Asset Register/inventories	Corporate	06/05	5		Qtr 4	
331	Planning fees investigation	Planning	06/05	4	3	Qtr 2	Reconciliation yet to be produced
332	Contract Systems	Corporate	06/05	6		ongoing	
333	Car Leasing	HR, Finance	06/05	8		Qtr 4	
334	Stores Stocktake	Works Unit	06/05	4		07/08	
335	Accounting & Ledger	Finance	07/05	12	7	Qtr 2	System reporting, virement levels, data cleansing
335	E-Financials Application	ICT, Finance	06/05	8		Qtr 4	
336	OHMS Application	Housing	07/05	9	9	Qtr 1	Good progress
339	Local PIs	HR	09/05	4	3	Qtr 2	Insufficient evidence to justify some LPI calculations.
340	Members Allowance	Corporate	08/05	4		Qtr 4	
344	Cash Receipting & Income Control	Finance	09/05	5	3	Qtr 1	Integrated cash management reports (to include Allpay and internet), yet to be developed
341	Office Service Contracts	Legal & Admin	10/05	4	4	Qtr 3	Photocopying contract needs to be formalised
343	IT Procurement	ICT	10/05	9		Qtr 4	
342	Creditors	Finance	10/05	29	25	Qtr 2	Key systems control issues have been addressed in training for staff but there remain concerns regarding corporate compliance with their application.
347	Building Control	Planning	10/05	10	8	Qtr 2	Reconciliation of income is outstanding
346	Freedom of Information	Corporate	11/05	4		-	Co-ordination issue now dealt with

Ref.	Report Title	Client	Date Issued	Agreed Actions	Agreed Actions in place	Time of Follow up	Outstanding Issues post follow up
349	Grants to Voluntary Organisations	RDS	12/05	11		07/08	Defer to main audit 2007/08
351	Housing Rents	Housing	12/05	7	6	Qtr 2	Suspense account process could be improved
356	Recruitment & Selection	HR	12/05	4	4	Qtr 2	High risk posts to be monitored
362	Works Unit Investigation	Works Unit	12/05	7		Qtr 4	
358	Housing & Council Tax Benefits	Finance	12/05	14	11	Qtr 3	Outstanding issues linked to new IT system
360	Treasury Management	Finance	12/05	8		Qtr 4	
352	Cash Offices	Finance	12/05	3	3	Qtr 3	Issues addressed
353	Budgetary Control	Finance	12/05	8		Qtr 4	
350	Payroll	Finance	01/06	6	5	Qtr 2	Sample checks of increments awarded
367	Licensing Investigation	Environmental	01/06	9	9	Qtr 2	Good progress during the follow up audit
375	North Weald Airfield	Leisure	05/06	8	6	Qtr 3	Control of overtime and compliance with Financial Regulations
363	Works Unit	Works Unit	02/06	5		Qtr 4	
366	Estate Management	Legal & Admin	03/06	8		Qtr 4	
368	NDR Collection & Refunds	Finance	03/06	8	6	Qtr 3	Procedure notes, use of hand held units for system notes in lieu of card system (review with new system)
370	Risk Management & Insurance	Finance	03/06	3		Qtr 4	
374	Rechargeable Works	Environmental	03/06	3		Qtr 4	
373	Capital Financing	Finance	03/06	7	-	07/08	
372	Housing Repairs & Maintenance	Housing	03/06	4		Qtr 4	
348	Bank Reconciliation	Finance	10/05	6	4	Qtr 3	Format of reconciliation, review of unrepresented cheques
369	Council Tax	Finance	03/06	6		Qtr 4	

INTERNAL AUDIT WORKPLAN JANUARY – MARCH 2007

Appendix 3

Week	Chief Auditor		Senior Auditor		Auditor		Auditor		Term time auditors (1xfte)		P/t Audit Assistant (vacant)	
	audit	days	audit	days	audit	days	audit	days	audit	days	audit	days
w/c												
1.1.07	Monitoring report/ Audit Plan	4	Local land charges	4	Treasury Management (cont'd)	4	Inventory control	4	Council Tax/ Car Leasing follow up	2	n/a	0
8.1.07	Audit Plan	5	Local land charges	5	Treasury Management	5	Inventory control	5	Council Tax/ Car Leasing follow up	6	n/a	0
15.1.07	Audit Plan/ VFM review	5	Local land charges	5	Service/Business Plans	5	Establishment list	5	Council Tax/ Car Leasing follow up	6	n/a	0
22.1.07	Fin Regs/ Investigation	5	Local land charges	5	Service/Business Plans	5	Leave	0	Council Tax/ Budgetary control	6	n/a	0
29.1.07	Reports/file reviews	5	Depot	5	Service/Business Plans	5	Establishment list	5	Council Tax/ Budgetary control	6	n/a	0
5.2.07	Reports/file reviews	5	Depot	5	Estate Management	5	National Fraud Initiative (NFI)	5	Council Tax/ Budgetary control	6	n/a	0
12.2.07	Reports/file reviews	5	Depot	5	Estate Management	5	NFI	5	Half Term	0	n/a	0
19.2.07	Sundry Debtors	5	Leave	0	Estate Management	5	NFI	5	Council Tax/ Budgetary control	6	n/a	0
26.2.07	Sundry Debtors	5	Depot	5	Estate Management	5	Leave	0	Council Tax/ Risk Management	6	n/a	0
5.3.07	Monitoring report/ Review files	5	Depot	5	Housing Repairs follow up	5	NFI	5	Council Tax/ Risk Management	6	n/a	0
12.3.07	Leave	0	IT Network follow up	5	Housing Repairs follow up	5	NFI	5	IT Procurement follow up/ Risk Management	6	n/a	0
19.3.07	Statement on Internal Control	5	IT Network follow up	5	Rechargeable works follow up	5	NFI	5	IT Procurement follow up/ Risk Management	6	n/a	0
26.3.07	Annual Audit Report	5	IT Network follow up	5	Rechargeable works follow up	5	NFI	5	IT Procurement follow up/ Risk Management	6	n/a	0

Notes:

- Annual leave has been allocated where booked
- Team meetings and other non-chargeable work have not been detailed in the schedule
- The Audit Commission has been consulted on the above plan

**Audit Plan 2006/07
Status Report at 31 December 2006**

Appendix 4

Audit area	Audit type	Days allocated	Days spent 1 Apr- 31 Dec	Status at 31 Dec 2006	Risk (impact) Indicator l/m/h
FINANCE					
Bank Reconciliation	system/follow up	20	11	completed	h
Sundry Debtors inc IT	system/follow up	30	14	complete qtr 4*	h
Creditors IT	IT/follow up	10	-	defer	h
Creditors	system/follow up	30	30	completed	h
Treasury Management	verification/follow up	20	10	in progress	h
Payroll	system/follow up	30	34	completed	h
Budgetary Control (capital and revenue)	follow up	10	1	Qtr 4	h
Risk Management and Insurance	system/follow up	15		Qtr 4	h
Main Accounting and Financial Ledger	system	25	14	completed*	h
Asset Register and Inventory control	follow up	10	3	in progress	h
Housing Benefits inc IT	system/follow up	35	35	completed	h
Benefit Fraud Investigation	system	15	15	completed	h
Council Tax inc IT	system/follow up	30	5	in progress	h
National Non Domestic Rates	system/follow up	25	30	completed	h
Cash Offices	verification	5	6	completed	h
Cash receipting system and Income control	system/follow up	20	24	completed	h
* by contractor					
TOTAL FINANCE		330	232		
PLANNING SERVICES					
Enforcement / planning fees follow up	system/follow up	25	26	completed	h
Section 106 Agreements	follow up	10	-	Delete	h
Building Control	follow up	10	15	completed	h
Cash receipting	system	10	8	completed	h
TOTAL PLANNING		55	49		
ENVIRONMENTAL SERVICES					
Car Parking	system/follow up	25	16	completed	h
Licensing	follow up	10	13	completed	h
Rechargeable Works	follow up	5		Qtr 4	h
Waste Management	follow up	10	-	Defer	h
TOTAL ENVIRONMENTAL		50	29		
WORKS/DSO					
Fleet Operations	system	15	22	completed	h
Depot	system/follow up	22		Qtr 4	h
Stores (stocktake)	stocktake	3	4	completed	h
TOTAL DSO		40	26		
HOUSING					
Housing Rent Collection	system/follow up	25	26	completed	h
Norway House (inc rent administration)	establishment	20	21	completed	h
OHMS IT system	IT/follow up	15	8	completed	h
Housing Repairs	follow up	5	1	Qtr 4	h
Tolerated Trespassers (days from contingency)	system	7	7	completed	h
Partnering Arrangements	system/vfm	-	-	reserve	m
Investigation – Estates Cleaning	Investigation	18	18	completed	h
TOTAL HOUSING		90	81		

Audit area	Audit type	Days allocated	Days spent 1 April-31 Dec	Status at 31 Dec 2006	Risk Indicator l/m/h
POLICY					
Grants to Voluntary Organisations	follow up	10	-	defer	h
Committee & Member Services Civic Support	system/follow up	15	9	in progress	m
External Funding	system	30	18	completed*	h
Safer Communities Team Investigation	investigation	-	12	completed	h
* by contractor					
TOTAL POLICY		55	39		
LEISURE SERVICES					
Contract Monitoring	system	20	21	completed	h
Grounds Maintenance	system	20	22	completed	m
North Weald Airfield	follow up	5	8	completed	h
District Museum	establishment	-	-	reserve	m
TOTAL LEISURE		45	51		
HUMAN RESOURCES					
Establishment list	system/follow up	15	3	Qtr 4	h
Corporate Training	system	10	10	completed	m
Recruitment and selection processes	follow up	5	5	completed	h
Car Leasing (days allocated from contingency)	follow up	10	3	in progress	h
TOTAL HUMAN RESOURCES		40	21		
LEGAL, ADMINISTRATION AND ESTATES					
Estate Management	system/follow up	25		Qtr 4	h
Repairs and Maintenance (non HRA)	system	-	-	reserve	m
Local land charges	system/ IT	20		Qtr 4	h
Office Services contracts	follow up	5	7	completed	h
TOTAL LEGAL AND ADMINISTRATION		50	7		
MISCELLANEOUS					
CPA and BEST VALUE					
Best Value / Local Performance Indicators	system/follow up	35	39	completed	h
Review of Service business/ best value plans	follow up	10		Qtr 4	h
CONTRACTS					
Contract/systems Audits	system	15		ongoing	h
CORPORATE					
Corporate Procurement (IT procurement c/fwd)	system	25	7	completed	h
Review of financial regulations and internal controls	management review	5	3	ongoing	h
Use of consultants	system (c/fwd)	5	8	completed	h
Freedom of Information	follow up	5	-	delete	h
FRAUD AND CORRUPTION					
National Fraud Initiative (NFI)	biennial review	35	5	Qtr 4	h
COMPUTER SERVICES					
I.T.					
Network Security/E-financials	follow ups	15		Qtr 4	h
E-mail and Internet usage	follow up	5	1	completed	h
IT Procurement (see corporate item above)	follow up	5		Qtr 4	h
TOTAL DAYS ALLOCATED		915	598		
Contingency/ Spot checks/ Minor investigations		25	6	ongoing	h
Corporate/Service Advice		50	58	ongoing	h
TOTAL		990	662		

Report to the Finance and Performance Management Committee



**Epping Forest
District Council**

Date of meeting: 29 January 2007

Portfolio: Finance and Performance Management

Subject: Sundry Income and Debt Policy

Officer contact for further information: Brian Moldon – (01992 – 56 4606)

Democratic Services Officer: Graham Lunnun - (01992 - 56 4244)

Recommendations/Decisions Required:

To consider and adopt a new corporate policy for Sundry Income & Debt.

Report:

Introduction

1. The adverse comments on collection of debt in last year's Use of Resources assessment highlighted a need for further work in this area. To address these comments Finance and Legal Services undertook a review of procedures for collecting sundry debts. The outcome of this review is a new debt recovery procedure that has been introduced into the Council on 1 November 2006. This procedure was reported to Senior Management Team on 6 October 2006 and the recent improvements in this area were reported in the Members Bulletin on 21 December 2006.

Debt Policy

2. Now that the new recovery procedure is in place, it is necessary for the Council to have a policy to provide the overall context. Therefore, the attached Sundry Income & Debt Policy has been created following reviews of various Debt Policies from other Councils.
3. The policy has been reviewed by Legal Services and Internal Audit and has been amended to take account of their comments. The policy then went to Management Board on 3 January where it was considered and adopted.
4. The policy reiterates the new debt recovery procedure, and also includes a further incentive to Services to ensure that they raise their debts correctly and promptly so that payment is received as quickly as possible. This new incentive arises where debts are not paid within 60 days of the invoice being raised, as at this point either Legal Services for debts over £100 or a debt collection agency for debts below £100 would be involved in collecting the debt.
5. The incentive is that if the invoice were paid within 60 days the Service would retain the credit. However, if the invoice is not paid within 60 days an internal invoice will be raised by the Central Debtor Team (this action will take place at the point the invoice is paid). This will be issued to the Service and will remove 10% of the value of the original invoice to cover recovery costs incurred in collecting the debt. It is proposed that the internal invoice is limited to a maximum figure of £3,000.

Conclusion

6. A considerable amount of work has been undertaken in producing this policy and this now need to be adopted by Members to ensure the Council can demonstrate that it has embraced and embedded improvements in debt collection procedures.



Epping Forest District Council

Sundry Income & Debt Policy

Version 1 – December 2006

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1 Introduction

- 1.1 This Policy shall be known as “The Sundry Income & Debt Policy” and covers the collection of sundry debt due to Epping Forest District Council.
- 1.2 It is the Council’s policy to recover all collectable debt owed to it. With this overall objective in mind this policy aims to:
- a) Maximise the Council’s Income
 - b) Reduce the time taken to collect charges
 - c) Reduce the level of debt owed to the Council and hence its provision for bad debts, and
 - d) Reduce the incidence of debt that cannot be collected.
- 1.3 This Policy supports these aims by:
- a) Promoting ownership of debts by service providers
 - b) Ensuring wherever possible that collection of the fee or charge involved takes place prior to the service being provided so that credit is only given when it is essential to do so
 - c) Promoting a system of credit control
 - d) Ensuring invoicing procedures are carried out on an accurate and timely basis
 - e) Requiring that evidence to support the invoice exists in the form of an order or other written contract
 - f) Encouraging debtors to pay promptly, and
 - g) Making collection and enforcement activity more efficient.
- 1.4 The Policy aim is to achieve the following rates of collection in terms of both numbers and value of invoices:
- a) 85% of debt to be collected within 42 days of the invoice being issued
 - b) 90% of debt to be collected within 60 days of the invoice being issued
- 1.5 The Senior Finance Officer will review the targets given above each year.
- 1.6 The Council will publicise the fact that it has this policy and that it intends to pursue the collection and recovery of all debts owed to it.

2. **Exclusions**

2.1 The following areas are excluded from this policy:

- a) Council Tax
- b) National Non Domestic Rates
- c) Housing Rents
- d) Housing and Council Tax Benefits Overpayments

3. **Key Objectives of Fees and Charges**

3.1 The fee or charge imposed by the Council should be fair in relation to the goods and/or services provided.

3.2 The charge should reflect the principles outlined in the appropriate charging policy and in the Council's Financial Regulations.

3.3 The charge should, depending on legislation, always at least cover the cost of providing the goods or service and the costs of collection, unless the Council has taken a policy decision to subsidise the service.

3.4 The charge should wherever possible be obtained in advance of the goods and/or services being provided. If not, and where appropriate, the prior written agreement of the person receiving the goods and services should be obtained to pay for the goods and/or service.

3.5 The charge should be collectable.

3.6 Fees and charges must be reviewed at least annually.

3.7 There should be a clear and prompt billing and collection process.

3.8 There should be a clear and consistent council-wide approach to the giving of credit and the collection of debt that is led by this policy.

3.9 There should be a system that ensures Services only retain credit for an invoice if the income is actually collected.

4. **Responsibilities**

4.1 Heads of Service must ensure that:

- a) Financial Regulations in relation to the collection of sundry debt are adhered to
- b) The parts of this policy that apply to their service are correctly followed
- c) They proactively support the achievement of corporate targets

for debt collection

- d) Budget Managers are fully appraised of their responsibilities
- e) Relevant systems and procedures are put in place
- f) Staff involved in the debt collection process are appropriately trained, and
- g) The successfulness of training is kept under continuous review.

4.2 The Head of Finance is charged with the responsibility of providing central support and the relevant electronic processes needed to ensure this policy can be adhered to.

5. **Invoicing**

5.1 Services are responsible for raising invoices in respect of the goods and/or services they supply on credit.

5.2 An invoice should be raised within 10 working days of the goods and/or services being supplied.

5.3 Amounts due to the Council should not generally be held in holding accounts. However, where it is unavoidable for a holding account to be used then that account must be cleared on not less than a 10 working day cycle.

5.4 An invoice should not be raised:

- a) For less than £10, unless it is a statutory charge (Fees and charges below this level should be collected in advance by other methods.)
- b) If an order (or equivalent) has not been received
- c) When it cannot be proven that the goods and/or services have been supplied
- d) When the amount due is not still owed
- e) If a debt is already bad or doubtful
- f) Where a potential debtor fails to obtain credit limit approval, or
- g) Where a previous invoice for the same goods or service has already been credited.

5.5 For periodic charges, a direct debit should, wherever possible, be set up in advance of the service being provided.

5.6 An invoice must not be raised to provide a hidden subsidy.

5.7 An invoice must not be raised to artificially enhance income targets.

6. **Payment Methods**

Invoices should be able to be paid by all of the following methods:

- a) Cheque
- b) Direct Debit
- c) Debit card
- d) Standing order
- e) BACS payment
- f) Cash
- g) By telephone, and
- h) Via the Internet.

7 **Credit Limits**

- 7.1 For goods and/or services being supplied and costing over £10,000 a credit check must be run on all customers except those in the public sector.
- 7.2 Credit must not be given to previous customers who have been consistently late payers or have not paid at all.
- 7.3 Preferential credit limits must not be agreed for any customer.

8. **Credit Terms**

- 8.1 The Council should aim to collect monies owing to it fully and promptly.
- 8.2 Payment terms should only be granted where the debtor is not able to settle the debt in full in one payment. On receipt of an invoice a debtor can make arrangements to clear the account by weekly, fortnightly or monthly instalments. These payments should be by direct debit wherever possible.
- 8.3 Only Legal Recovery and Central Debtor Teams can arrange payment terms with the debtor.
- 8.4 The Central Debtors Team should consider withdrawing payment terms if a debtor fails to honour the agreement entered into.
- 8.5 The following table should be used as guidance when arranging credit. However, **no terms can be agreed over twelve months.**

Value	Terms (from date of invoice)
Debts below £500	No more than 3 months
Debts below £1,500	No more than 6 months
Debts below £2,500	No more than 9 months
Debt above £2,500	No more than 12 months

8.6 If the debtor requests that they would want the Council to take an exceptional view due to their financial circumstances. A detailed income and expenditure sheet should be completed for their case to be considered. The Senior Finance Officer should be consulted when exceptional cases are being considered.

8.7 The Senior Finance Officer must review the monetary values contained in this section on an annual basis. When it is considered that those values should be changed the new figures shall only apply once the Head of Finance has agreed them in writing.

9. **Accounting Arrangements**

9.1 The Service will receive the credit when an invoice is raised.

9.2 If the invoice is paid within 60 days the Service will retain the credit. No internal invoice will be raised to the originating Service to meet costs of recovering the debt.

9.3 If the invoice is not paid within 60 days an internal invoice will be raised by the Central Debtors Team (this action will take place at the point the original invoice is paid). This will be issued to the originating Service requesting payment of 10% of the value of the original invoice to cover recovery costs incurred in collecting the debt.

9.4 The 10% contribution will be paid to Legal Services if the debt is being dealt with by Legal, or to Finance Service if the debt is being pursued through a debt agency.

9.5 In all cases the 10% contribution to costs arrived at by the calculation at 9.3 above shall be cash limited to a maximum figure of £3,000.

10. **Collection**

10.1 A written reminder should be sent for all invoices unpaid after 21 days.

10.2 If after a further 7 days (i.e. 28 days from date of invoice) the account is unpaid a final reminder notice should be issued.

10.3 If after a further 7 days (i.e. 35 days) the account is unpaid a letter before action letter should be issued.

- 10.4 After a further 7 days (i.e. 42 days) if an invoice is still outstanding it should be passed to Legal Services for county court action for debts over £100 or referred to a debt collection agency for debts below £100.
- 10.5 If an invoice of £5,000 or more is unpaid after 34 days (the service will receive a task on AIMS advising that the debt remain outstanding) a telephone reminder should be made to the debtor by the relevant Service to confirm receipt of the invoice and to identify any queries relating to it. In cases where it proves difficult to make contact with a private individual during normal working hours telephone calls should also be made between 6pm and 8pm Monday to Friday.
- 10.6 The Council should employ two debt collection agencies with the workload being split in the ratio 60:40 between them.
- 10.6 Each year the Senior Finance Officer should review the performance of the two agencies and the best performing one should receive the 60% workload in the following year.
- 10.7 Once a case has been referred to the debt collection agency any payment arrangement the debtor enters into must be made directly to that agency.
- 10.8 If an account is referred for action to a debt collection agency and the case is then withdrawn, any fees incurred will be charged to the originating service.
- 10.9 Recovery action can be halted at any part of the process if the debtor enters into payment terms to clear the debt by instalments.
- 10.10 Recovery action can be halted at any part of the process if the originating Service decides not to pursue recovery for the good of the service. When this happens the originating Service must bear the cost. Any adjustment to the amount invoiced must be requested by submitting a write off request to the Central Debtors Team by the Head of Service.
- 10.11 The debt recovery procedure can be seen at Appendix A.

11 **Queries and Disputes**

- 11.1 If there is a dispute the Service that raised the invoice must attempt to resolve the matter within 35 days of the invoice being raised.

12 **Litigation**

- 12.1 All debts outstanding above £100 should be referred to Legal Services with the necessary documentation being provided by the

service.

13 **Credit Notes**

- 13.1 In conjunction with financial regulations there must be a clear distinction between raising a credit note and writing off a debt.
- 13.2 A credit note to cancel or reduce a debt must only be issued to:
 - a) Correct a factual inaccuracy
 - b) Correct an administrative error
 - c) Process a discount granted by the Head of Service where the account was originated.
- 13.3 Only authorised staff at the discretion of service managers should issue credit notes.
- 13.4 A credit note should only be issued when the credit request memo is signed by an authorised signatory and an explanation for the credit note is stated in every case

14 **Write Offs**

- 14.1 The following officers have delegated powers to write off bad debts as follows:
 - a) Head of Finance for debts under £500
 - b) Finance & Performance Management Portfolio Holder for debts of £500 and above.

15 **Interest Loss**

- 15.1 If it is evidenced that any action by a Service leads to a significant detrimental effect on the Council's cash flow by not following this policy, the Head of Finance should consider imposing a charge on that service equivalent to the lost interest incurred.
- 15.2 A loss of £500 should be considered as being significant.

16 **Debt Management**

- 16.1 The following data should be used to monitor performance against targets and timescales set for each Service:
 - a) Level of debt

- b) Number of days debts are outstanding – “debtor days” for invoices raised within the preceding 12 months
- c) Number of days debts are outstanding – “debtor days” for invoices more than 1 years old
- d) Level of irrecoverable debt provision
- e) Aged debt analysis by value
- f) Analysis of write offs by income section and age
- g) Number and value of disputed accounts and those where action is on hold
- h) Performance monitoring of external agents
- i) Number and value of accounts in the different stages of the legal process
- j) Percentage of debt by number and value collected in 42 days, and
- k) Percentage of debt by number and value collected in 60 days.

17 **Monitoring**

17.1 The Senior Finance Officer is authorised to:

- a) Carry out the central monitoring of this policy,
- b) Agree amendments to the policy for operational, efficiency and effectiveness purposes,
- c) Report to Finance & Performance Management Cabinet Committee any major issues arising from the above.

18 **Review**

18.1 The Policy once approved and implemented will be subject to regular review.

1 FINANCE RECOVERY

- 1.1 When an invoice is being raised the recovery profile is defaulted to 'New Debt Recovery' (code being 'DR'). This recovery profile should be used for all invoices except for Estates, this being 'ES' (Estate Debts). If the debt is for an employee of the Council then recovery profile should be 'SD' (Staff Debts).
- 1.2 The recovery profile dictates the set of events. The flow chart of each of these profiles can be seen at Appendix B.
- 1.3 During any stage of the finance recovery:
- a) If full payment is received, the debt is closed;
 - b) If an offer to pay in instalments is made, Finance will be responsible for setting up and monitoring the payments. Before the arrangement is agreed the debtor will need to sign and return one copy of the agreement;
 - c) If there is default on payment, a reminder letter is sent. If the debt remains outstanding the debt is passed back to the service advising them to instruct Legal to take Legal action (copy of the agreement should be forwarded to the service).
 - d) If the debtor disputes the debt, before it reaches Legal, Finance will refer this to the service to resolve. Finance will put a hold on collecting the debt until the service informs Finance with what action to take i.e. resume; cancel; adjust the debt.

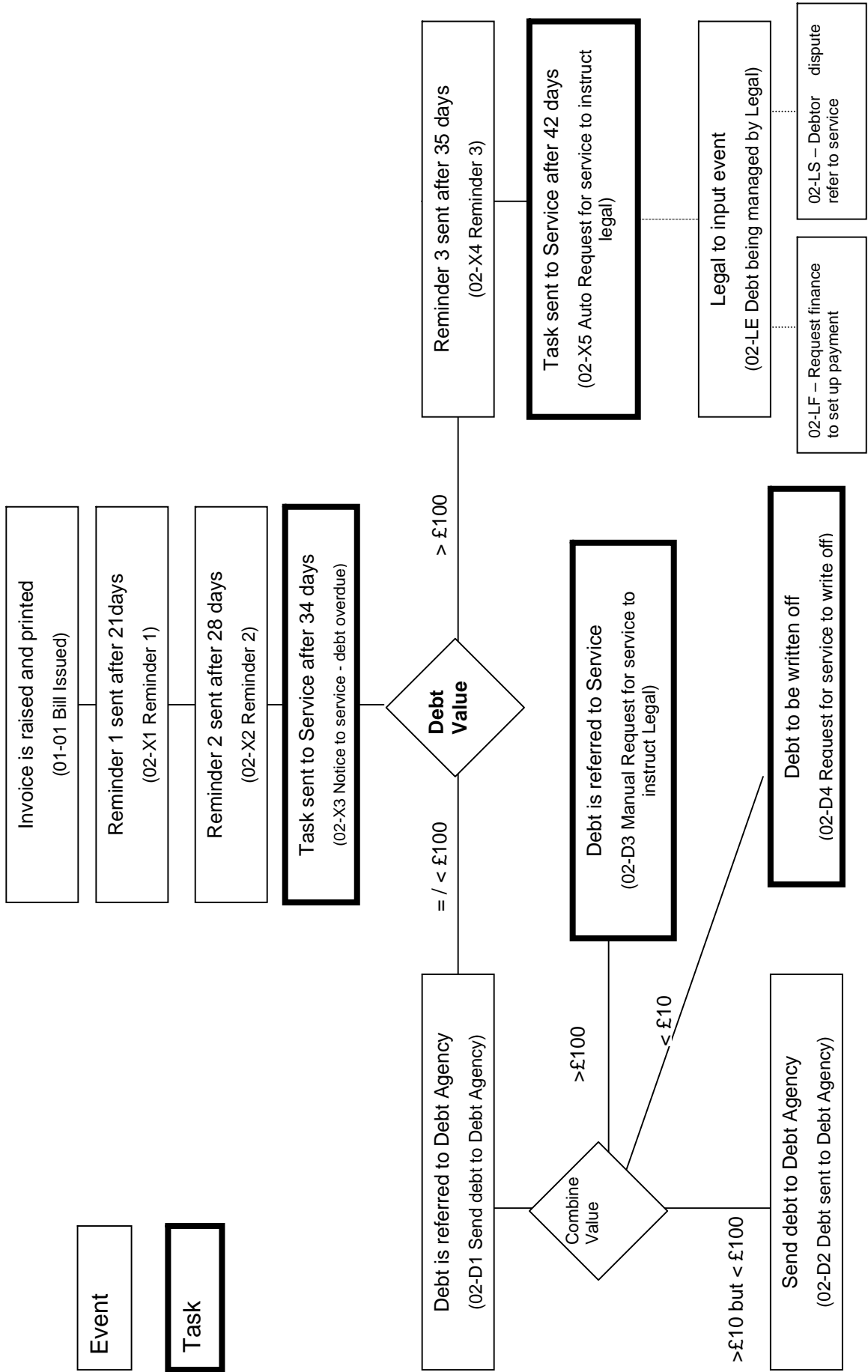
2 LEGAL RECOVERY

- 2.1 Whilst the debt is with Legal:
- a) If the debtor asks to make arrangement to pay the debt, Legal will close their file and refer the request onto Finance.
 - b) If the debtor disputes the debt, following Pre Action Protocol Letter, Legal will close the file and refer the debtor back to the Client Service.
 - c) Legal WILL only re-open their file, if either Finance or Client Service request Court action to be continued and evidence is provided that shows that the dispute has been discussed with the debtor.
 - d) If the debtor raises a Defence following the service of the Claim Form then Legal will not close their file, but liaise with the Client Service to receive instructions on how to proceed. Client Service will have to comply with any time limits imposed by Legal, as the matter will now be in the control of the Court and its timetable.

3 MEETINGS AND REPORTING

- 3.1 In order for all parties to keep up to date with the latest development monthly / quarterly (depending on the service) meetings will be arranged between originating Service, Legal and Finance.
- 3.2 Legal will provide monthly listings on all their cases and where they are with each one to the client service and finance.
- 3.3 Finance will provide the following reports to client services on a monthly basis:
 - a) Aged debt reports – this will show the amount in value and numbers outstanding by period
 - b) Debts to be referred to Legal – this will show the debts where the client service has not yet instructed legal to take Court action against the debtor
 - c) Debts placed on hold – this will show the debts where they are put on hold until the service informs Finance of the outcome
 - d) Any other specific report to a client

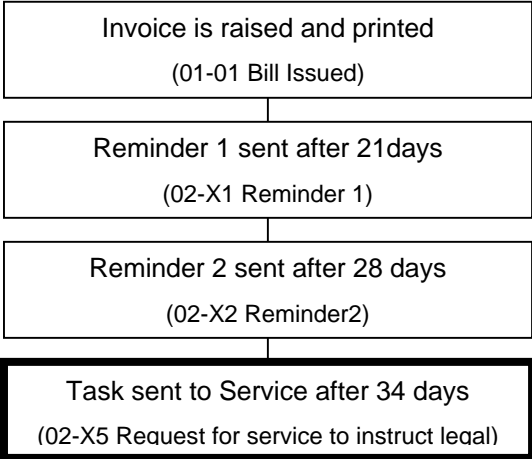
Recovery DR = New Debt Recovery



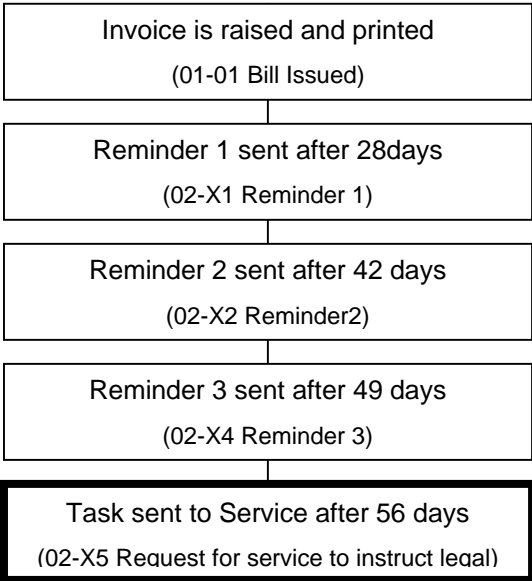
Event

Task

Recovery SD = Staff Debts



Recovery ES = Commercial Rent



Event	Action	Timescale to achieve action
On receipt of instruction from service	Legal will check the evidence received and if correct will enter on AIMS that the invoice is now being managed by Legal. Proof of address is obtained and a Pre-Action Protocol Letter is sent giving 7 days to pay.	10 working days
8 th Day after Pre-Action Protocol Letter sent	Legal to issue Court Proceedings, if no contact has been made by the debtor.	10 working days
Day 15 after issue of proceedings	If no response is made by the debtor. Legal will obtain Judgment.	10 working days
Once Judgment is obtained	Legal will take the appropriate action to recover the debt through discussions with the originating service where necessary.	10 working days

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Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Date of meeting: 29 January 2007

Portfolio: Finance and Performance Management

Subject: Council Budgets 2007/08

Officer contacts for further information: Bob Palmer (01992 – 56 4279)

Democratic Services Officer: Graham Lunnun (01992 - 56 4244)

Recommendations/Decisions Required:

- (1) That the Committee considers the Council's 2007/08 General Fund budgets and makes recommendations to the Cabinet meeting on the 5 February 2007 on the following:**
 - (a) the revised revenue estimates for 2006/07;**
 - (b) the draft CSB budgets for 2007/08 (excluding growth items);**
 - (c) the draft CSB growth items list;**
 - (d) the draft DDF items list;**
 - (e) the District Council Tax for a Band 'D' property;**
 - (f) the estimated use of surplus General Fund balances;**
 - (g) the four year capital programme 2007/08 – 10/11;**
 - (h) the four year financial forecast 2007/08 - 10/11; and**
 - (i) the council's future policy on the maintenance of General Fund Revenue Balances.**
- (2) That the Committee recommends to the Cabinet that the 2007/08 HRA budget including the revised revenue estimates for 2006/07 be agreed.**
- (3) That the Cabinet be requested to note that rent increases and decreases for 2007/08 are to be applied in accordance with the Government's rent reforms and the Council's approved rent strategy.**
- (4) That the Committee recommends to the Cabinet that the increase in deficiency payments to the pension fund is again capitalised in accordance with the Capitalisation Direction request made to the Department for Communities and Local Government. These payments are funded from the Pension Fund Capital Reserve that was established with the transfer of £2.5m from the Usable Capital Receipts Account.**
- (5) That the Committee considers the Council's Prudential Indicators and Treasury Management Strategy for 2007/08 and makes recommendations to the Cabinet.**
- (6) That the Committee notes the Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2007/08 budgets and the adequacy of the reserves.**

Introduction

1. On 5 February 2007 the Cabinet will receive the minutes and recommendations contained therein of this meeting and will then make recommendations to Council for the setting of the Council Tax and budget on 20 February 2007.
2. The annual budget process commenced with the Financial Issues Paper being presented to this committee on 25 September 2006. The paper set out the very different financial position that the Council was in after South Herts. Waste Management had been placed in administration by their bankers. In setting the budget for the current year Members had approved a four-year forecast including £1 million of unidentified CSB growth in 2007/08, in order to restrict excessive growth in balances. Recent years have seen substantial increases in the general fund balance (2003/04 £323k, 2004/05 £1.026m and 2005/06 £968k) such that as at 31 March 2006 it was £6.456 million. This represented 41% of the Net Budget Requirement for 2006/07 and was far in excess of the Council's adopted guideline of 25%.
3. The revised four year forecast presented with the Financial Issues Paper took into account the £2.33 million of supplementary estimates approved for waste management and consequently illustrated a very different position. It was clear that unless steps were taken within the four-year period to reduce expenditure there was a danger that all of the revenue balances could have been spent by the end of 2010/11.
4. Members decided that in view of the current strength of reserves it was possible to take a measured approach and look to reduce expenditure in a progressive and controlled manner. It was felt that a reduction was needed in the budget figures for 2007/08 as the first step in this process.
5. The budget guidelines were therefore established as:
 - i. The ceiling for CSB net expenditure be no more than £17m including net growth/savings.
 - ii. No ceiling for DDF net expenditure, but all items in the programme were to be reviewed.
 - iii. The District Council Tax be increased by no more than the rate of increase in the Retail Prices Index.

The Current Position

6. The draft General Fund budget summaries are attached as annexes 1 to 10. The main year on year resource movements are highlighted in the CSB Growth and DDF lists, which are attached as Annexes 11 and 12. In terms of the guidelines, the position is set out below.
 - (a) The ceiling for CSB net expenditure be no more than £17m including net growth;

Annex 11 lists all the CSB changes for next year. Some of the growth items listed are for sums agreed as part of previous year's budgets but most are new for next year. The largest item for next year is £113,000 for the end of subsidy on reinstatement grants. Under section 541 of the 1985 Housing Act the Council has been receiving subsidy for reinstatement grants made between 1987 and 1991. The subsidy was for loan charges on those grants and lasts for 20 years from the inception of each grant. This subsidy is coming to an end over the next couple of years and so the loss of income must be reflected as CSB growth.

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

No CSB growth has been built into the budgets for the Customer Services Transformation Programme (CSTP). Given the uncertainty over future waste costs Members have decided not to progress this initiative at this time.

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

The other category of CSB savings covers the areas where income has been increased. The most significant increase in income is the additional £50,000 that the Council should receive from SLM, under the terms of the income share agreement. This is due to the level of income from the leisure centres exceeding the amount included by SLM in their tender.

(b) That DDF expenditure be reviewed;

The DDF net movement for 2007/08 is £559,000, Annex 12 lists all the DDF items in detail. Net expenditure is £876,000, which is offset by transfers in of £317,000. The largest cost item is £199,000 for works to principal ordinary watercourses, although £100,000 of this has been re-scheduled from 2006/07. The highest spending portfolio is Planning and Economic Development, which is budgeted to spend £349,000 of DDF in 2007/08. Most of this expenditure is either on the local plan amendments, £160,000, or the clear up of the Paynes Lane site, £122,000. The transfers in are £117,000 of reimbursement of residual costs of highways from Essex County Council and £200,000 for the Local Authority Business Growth Incentive Scheme.

(c) The District Council Tax be increased by no more than the rate of increase in the Retail Prices Index (RPI);

Last year members adopted a policy of restricting increases in Council Tax to less than the increase in the RPI. At the meeting of this committee on 11 December 2006, Members decided that in view of the latest RPI figure being 3.7% the Council Tax increase should be 3.5%. Since then RPI has increased to 4.4%, but it is not proposed to go above the 3.5% increase previously agreed.

(d) That longer term guidelines covering the period to March 2011 provide for:

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

Current projections show this rule will be breached by 2010/11, by which time reserves will have fallen to £3.4m and 25% of net budget requirement will be £4.5m.

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

The outturn for 2005/06 added £986,000 to reserves, and the original estimates for 2006/07 anticipated a further increase of £389,000. However, the supplementary estimates mentioned above and other changes to the revised estimates mean that £502,000 of reserves will now be used to finance the deficit in 2006/07. The deficit reduces slightly in 2007/08 to £321,000 before increasing to £925,000 in 2008/09 and £1.269 million in 2009/10. Thus contrary to the long-term guideline the use of revenue balances to support spending increases over the four-year forecast. This highlights the need to review and reduce expenditure to ensure that the guideline of reserves at 25% of NBR is not breached towards the end of the period.

The Local Government Finance Settlement

7. Last year as part of replacing the system of Assumed National Council Tax (ANCT) and Formula Spending Shares (FSS) with Relative Needs Formulae (RNF), the Government provided a two-year settlement. On November 28 draft figures for 2007/08 were issued and these were open to consultation until 5 January 2007. Initially it appeared that there was an increase of some £22,000 in the figures that the Council had previously been advised of. Unfortunately the DCLG later issued a correction and an apology that confirmed the draft settlement was as advised last year. The table below is repeated from last years budget papers to remind Members of the settlement:

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

8. It is also worth repeating that the increase of 6.2% is more than double the minimum floor increase of 2.7%. The restrictions on growth above the floor have been eased from 2006/07 as the Council can now retain 60.8% of the increase above the floor as opposed to the figure of 49.1% in 2006/07. This means the amount of grant lost to support the floor for other local authorities will reduce from £490,000 in 2006/07 to £189,000 for 2007/08.

The 2007/08 General Fund Budget

9. The uncertainties over the future costs of waste management and concessionary fares, and changes to the grant formula (when the much delayed Lyons Review is finally concluded) will not be resolved for some time. CSB growth of £1.5 million has been allowed for a new long-term waste management contract and the lengthy tender process is now well underway. However, it is unlikely that the actual costs to be incurred, and the identity of the new contractor, will be known for several months. The lack of information coming from the Government on how the revised concessionary fare scheme will work, and be paid for, is somewhat frustrating. From 1 April 2008 bus pass holders will no longer be restricted to travel within the area of their local scheme. This is a fundamental change to the scheme and if it is to be achieved in an efficient manner guidance from the Government is now needed urgently. The other major area of uncertainty still pending clarification is whether the DCLG will provide a capitalisation direction to cover the pension deficit payments for 2006/07. A capitalisation direction has been obtained for 2005/06 but it is necessary to apply for each year separately, and now as well as considering whether individual applications meet the criteria the national economic impact of all applications is also considered.
10. The starting point for the budget is the attached Medium Term Financial Strategy, Annex 13. Annexes 13a and 13b are based on the current draft budget, a Council Tax increase of 3.5% (£139.50 Band D) for 2007/08 and subsequent increases of 2.5% per annum for each of the following three years in accordance with the strategy of keeping Council Tax increases in line with the RPI.
11. Members are reminded that this strategy is based on a number of important assumptions which were agreed by the Finance and Performance Management Scrutiny Panel on 15 January 2007 and include the following:
- Future Government funding will continue to rise at a gross rate of 2% per annum, with the net increase being 2.5% in 2009/10 and 2.1% in 2010/11.

- CSB growth has been restricted to achieve the CSB target for 2007/08 of £17 million. Known growth beyond 2007/08 has been included but will be subject to a further review to help identify savings.
- All known DDF items are budgeted for, but because of the substantial additional funds being added to the DDF the closing balance at the end of 2010/11 is still anticipated to be in excess of £800,000.
- Maintaining revenue balances of at least 25% of NBR. The forecast shows that the deficit budgets throughout the period will reduce the closing balances at the end of 2009/10 to £3.4m or 19% of NBR for 2010/11, and thus illustrates the need for savings to be found.

The Capital Programme

12. The Capital Programme at Annex 15 shows the expenditure previously agreed by Cabinet and approved as part of the Capital Strategy by Council on 19 December 2006. The only late additional capital item included is £69,000 for the replacement ICT system for Revenues and Benefits, this is being considered by Cabinet on 22 January 2007. Some changes to the previous programme have been made to reflect the latest position on slippage, most notably in respect of Bobbingworth Tip where £1.3 million of the £1.659 million budget has been moved from 2006/07 to 2007/08.
13. Members have been advised previously of the pooling requirements for housing capital receipts introduced by the Local Authorities (Capital Finance and Accounting) Regulations 2003. As a debt free authority this Council benefits from transitional arrangements in the three years 2004/05, 2005/06 and 2006/07, with capital receipts liable to pooling treated as reduced, respectively, by up to 75%, 50% and 25%, where the authority commits this amount of expenditure to assets held within the Housing Revenue Account.
14. The estimated amount of capital receipts to be retained by the Council through transitional relief between 2004/05 and 2006/07 has reduced from £7m to £5.5m, due to a reduced level of Council house sales. The Council will use the majority of this funding on investing in its own housing stock, to ensure that all its properties meet the Government's Decent Home Standard by 2010. However, an estimated £1.1 million of the funding will be utilised to fund the contributions towards affordable housing and the shortfall in Government funding for Disabled Facilities Grants.
15. No significant new items have been included in the capital programme for some time. Members have stated that in future priority will be given to capital schemes that will generate revenue in subsequent periods. This position was stated in the previous Capital Strategy and has been reinforced by the increasing awareness that capital spending reduces investment balances and thus impacts on the general fund revenue balance through lower interest earnings.
16. Annex 15d sets out the estimated position on capital receipts for the next four years. Members will note that even with a substantial capital programme, which exceeds £50m over five years, it is anticipated that the Authority will still have £15.7m of usable capital receipt balances at the end of the period. It is anticipated that further disposals of surplus land will take place during 2007/08. Although in line with normal practice no account will be taken of any disposal proceeds until the deals are completed.

The Housing Revenue Account

17. The balance on the HRA at 31 March 2008 is expected to be £5.4m, as shown in Annex 14a, after a deficit of £399,000 in 2006/07 and a surplus of £179,000 in 2007/08. A significant factor in the change from deficit to surplus has been the reduction in capital expenditure charged to revenue, with the 2007/08 figure being £403,000 lower than the 2006/07 revised estimate.

18. The rent increase is set with reference to an individual property's formula rent but subject to various constraints. This process is referred to as Rent Restructuring and was introduced to bring Council rents and Housing Association rents more in line with each other. This process is set to continue until 2012 when most Local Authority and Housing Association rents should converge. Rent Restructuring is not mandatory however it is recommended as best practice and forms part of the Council's existing Rents Strategy. The actual average rent increase for 2007/08 is expected to be 5%.
19. An update to the current five-year forecast is being prepared and will be presented to a subsequent Cabinet. The HRA has had substantial balances for some time and this position is not expected to change in the short term.
20. Annex 14b shows the estimated balances for the Housing Repairs Fund and Annex 14c the same for the Major Repairs Reserve. Members are recommended to agree the budgets for 2007/08 and 2006/07 revised and to note that although a deficit budget was set for 2006/07 the HRA returns to surplus in 2007/08 and has substantial ongoing balances.

Risk Assessment and the Level of Balances

21. The Local Government Act 2003 (s 25) introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2007/08. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council at its meeting on the 20 February will consider the recommendations of the Cabinet on the budget for 2007/08 and will determine the planned level of the Council's balances. Members will consider the report of the CFO as set out at Annex 16 at that meeting.

The Prudential Indicators and Treasury Management Strategy 2007/08

22. As previously mentioned, the Local Government Act 2003 (LGA2003) changed the rules relating to capital finance. The regulations came into force on 1 April 2004. However, regulation 2, which requires local authorities to have regard to the CIPFA Prudential Code, was operative from 1 January 2004, because authorities needed to set their affordable borrowing limits for 2004-05 before the start of that financial year. The limits for 2007/08 are to be set and reviewed by the Full Council [section 3(8) of the Act]. The prudential indicators are set out in a separate report as Annex 17.
23. The repeal of Part IV of the Local Government and Housing Act 1989 on 1 April 2004 also ended the local authority approved investment regulations. Regulation 24 of the LGA 2003 relies on the power in section 15(b) to specify guidance to which authorities are to have regard in the future. The regulation specifies CIPFA's Treasury Management Code, which is already widely used by authorities and has been adopted by this Authority. This is quite separate from the Prudential Code although it complements it, covering good practice on the administration of debt, investments and related aspects of financial management. In addition the ODPM has issued investment guidance to replace the former regulations and regulatory approach.
24. Members approved a Treasury Management Strategy on 19 February 2004, which was based on the CIPFA and ODPM guidance mentioned above. To reflect the changing circumstances in which the Authority found itself, being debt free and having higher balances for investment, Council approved an updated Strategy on 14 December 2004. Council in turn amended this on 21 February 2006, when the limit on funds invested for more than 364 days was increased to £15m. This change was to give additional flexibility, should investment balances increase through any subsequent land sales. Investment balances have indeed increased and as further rises may be seen, an additional change is proposed at this point.

25. The current limit on funds invested for over 364 days is £15m and it is proposed to increase this limit to £20m. By taking the opportunity to change the policy now it is intended to give the treasury management staff sufficient flexibility to act quickly if a large capital receipt arises, rather than having to invest the funds at less favourable rates while a change to the policy is sought.

Options for action
Contained in the report

Statement in support of recommended action:
Budget shortfall still needs to be addressed

Consultation undertaken:
Overview and Scrutiny Committees currently being consulted

Resource implications:

Budget provision: As per report
Personnel: As per report
Land: As per report

Community Plan/BVPP reference: Various
Relevant statutory powers: Various

Background papers: Local Government Finance Report
Environmental/Human Rights Act/Crime and Disorder Act Implications:
Key Decision reference: Finalisation of Budget, Declaration of Council Tax, To set the levels of Council Tax for all areas within the District, and Declaration of Rents.

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Finance and Performance Management Cabinet Committee : 29 January 2007

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- Annex 2 Leaders**
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- Annex 17 Prudential Indicators Report**

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GENERAL FUND ESTIMATE SUMMARY

2005/06		2006/07		2007/08 Budget			
Actual	Original	Revised		Gross	Gross	Net	
£000	Estimate	Estimate		Expenditure	Income	Expenditure	
	£000	£000		Annex	£000	£000	£000
				no.			
2,527	3,003	2,830	Leader's Portfolio	2	3,211	425	2,786
1,099	1,814	1,594	Community Wellbeing	3	1,742	24	1,718
(135)	550	981	Finance & Performance Management	4	35,627	34,812	815
78	113	175	Customer Services Media & ICT	5	168	0	168
434	1,247	1,881	Housing	6	3,258	1,568	1,690
4,204	3,828	3,874	Leisure & Young People	7	5,157	1,597	3,560
583	767	607	Civil Engineering & Maintenance	8	2,543	1,695	848
2,340	2,988	2,658	Planning & Economic Development	9	3,955	1,231	2,724
4,772	5,664	7,834	Environmental Protection	10	7,898	986	6,912
(826)	(438)	(733)	Other Income			317	(317)
15,076	19,536	21,701	Net Cost of Services		63,559	42,655	20,904
(2,360)	(2,212)	(2,681)	Interest and Investment Income		0	2,650	(2,650)
1,580	1,394	1,750	Interest Payable (Inc. HRA)		1,761	0	1,761
(55)	0	0	Transfer from the HRA		0	0	0
1,440	788	639	Pensions Interest/Return		3,720	3,081	639
0	0	0	Revenue Contributions to Capital		0	0	0
15,681	19,506	21,409	Net Operating Expenditure		69,040	48,386	20,654
(1,738)	(2,871)	(3,269)	Contribution to/(from) Capital Reserves		0	2,540	(2,540)
969	389	(502)	Contribution to/(from) Other Reserves		0	321	(321)
150	150	150	Contribution to/(from) Insurance Reserves		0	0	0
550	(996)	(1,440)	Contribution to/(from) DDF		705	1,264	(559)
(1,328)	(386)	(556)	FRS 17 Adjustment		0	575	(575)
14,284	15,792	15,792	To be met from Government Grants and Local Taxpayers		69,745	53,086	16,659
13,322	14,480	14,406	Continuing Services Budget				16,842
701	1,245	2,581	CSB - Growth				374
(858)	(472)	(843)	CSB - Savings				(236)
(157)	773	1,738	Total Growth (Net)	11			138
13,165	15,253	16,144	Total Continuing Services Budget				16,980
1,693	2,137	2,937	DDF - Expenditure				1,264
(2,188)	(1,141)	(1,497)	DDF - One Off Savings				(705)
(495)	996	1,440	Total District Development Fund	12			559
1,614	(457)	(1,792)	Appropriations to/(from) other Reserves				(880)
14,284	15,792	15,792					16,659

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Leaders

General Fund Estimate Summary

2005/06		2006/07		2007/08		
<i>Actual</i>	<i>Original Estimate</i>	<i>Revised Estimate</i>		Gross Expend	Gross Income	Net Expend
£000	£000	£000		£000	£000	£000
Direct Services						
210	285	307	Elections	344	25	319
1,360	1,605	1,506	Corporate Activities	1,524	0	1,524
867	996	912	Member Activities	894	0	894
90	117	105	Other Activities	449	400	49
2,527	3,003	2,830	Total (Transferred to GF Summary)	3,211	425	2,786
Support and Trading Services						
232	300	290	Democratic Services	300	0	300
(68)	(88)	(85)	Recharged to this Portfolio	(88)	0	(88)
(164)	(212)	(205)	Recharged to other Portfolios	(212)	0	(212)
0	0	0	Total	0	0	0
2,527	3,003	2,830	Portfolio Total	3,211	425	2,786
2,575	2,906	2,718	Continuing Services Budget			2,776
42	72	91	Continuing Services Budget - Growth			10
(79)	(15)	(30)	Continuing Services Budget - Savings			(12)
2,538	2,963	2,779	Total Continuing Services Budget			2,774
25	40	51	District Development Fund - Expenditure			12
(36)	0	0	District Development Fund - Savings			0
(11)	40	51	Total District Development Fund			12
2,527	3,003	2,830	Portfolio Total			2,786

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Community Wellbeing

General Fund Estimate Summary

2005/06		2006/07		2007/08		
<i>Actual</i>	<i>Original Estimate</i>	<i>Revised Estimate</i>		Gross Expend	Gross Income	Net Expend
£000	£000	£000		£000	£000	£000
Direct Services						
123	151	148	Emergency Planning	150	0	150
341	377	379	Voluntary Sector	405	10	395
264	345	326	Safer Communities	337	0	337
371	941	741	Travel Schemes	850	14	836
1,099	1,814	1,594	Total Direct	1,742	24	1,718
1,099	1,814	1,594	Total (Transferred to GF Summary)	1,742	24	1,718
941	1,187	1,167	Continuing Services Budget			1,718
162	634	534	Continuing Services Budget - Growth			0
(47)	(7)	(7)	Continuing Services Budget - Savings			0
1,056	1,814	1,694	Total Continuing Services Budget			1,718
68	0	0	District Development Fund - Expenditure			0
(25)	0	(100)	District Development Fund - Savings			0
43	0	(100)	Total District Development Fund			0
1,099	1,814	1,594	Portfolio Total			1,718

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Finance and Performance Management

General Fund Estimate Summary

2005/06	2006/07			2007/08		
<i>Actual</i>	<i>Original Estimate</i>	<i>Revised Estimate</i>		Gross Expend	Gross Income	Net Expend
£000	£000	£000		£000	£000	£000
Direct Services						
579	616	875	Housing Benefits	33,920	33,166	754
910	1,019	1,086	Local Taxation	1,651	560	1,091
(824)	(805)	(804)	Land & Property	257	1,086	(829)
(800)	(280)	(176)	Other Activities	(201)	0	(201)
(135)	550	981	Total (Transferred to GF Summary)	35,627	34,812	815
Support and Trading Services						
1,286	1,382	1,368	Finance Support Services	1,530	103	1,427
1,019	1,180	1,103	Legal & Administration Services	1,252	56	1,196
1,402	1,466	1,629	Accommodation Services	1,619	17	1,602
1,843	1,901	1,790	Other Support Services	1,880	17	1,863
(1,789)	(1,912)	(1,899)	Recharged to this Portfolio	(2,025)	(62)	(1,963)
(3,761)	(4,017)	(3,991)	Recharged to other Portfolios	(4,256)	(131)	(4,125)
0	0	0	Total	0	0	0
(135)	550	981	Portfolio Total	35,627	34,812	815
202	476	1,008	Continuing Services Budget			739
113	105	98	Continuing Services Budget - Growth			61
(393)	(214)	(281)	Continuing Services Budget - Savings			(100)
(78)	367	825	Total Continuing Services Budget			700
333	395	443	District Development Fund - Expenditure			282
(390)	(212)	(287)	District Development Fund - Savings			(167)
(57)	183	156	Total District Development Fund			115
(135)	550	981	Portfolio Total			815

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Customer Services, Media Communications & ICT

General Fund Estimate Summary

2005/06	2006/07			2007/08		
Actual	Original	Revised		Gross	Gross	Net
£000	Estimate	Estimate		Expend	Income	Expend
	£000	£000		£000	£000	£000
Direct Services						
111	90	112	Customer Services	105	0	105
51	61	63	Compliments & Complaints	63	0	63
162	151	175	Total Direct Services	168	0	168
Support and Trading Services						
1,665	2,275	2,392	Information Technology	2,065	0	2,065
295	352	331	Public Relations & Information	368	0	368
(45)	(60)	(62)	Recharged to this Portfolio	(55)	0	(55)
(1,999)	(2,605)	(2,661)	Recharged to other Portfolios	(2,378)	0	(2,378)
(84)	(38)	0	Total	0	0	0
78	113	175	Total (Transferred to GF Summary)	168	0	168
(96)	(24)	69	Continuing Services Budget			137
70	106	106	Continuing Services Budget - Growth			0
0	0	0	Continuing Services Budget - Savings			0
(26)	82	175	Total Continuing Services Budget			137
104	31	0	District Development Fund - Expenditure			31
0	0	0	District Development Fund - Savings			0
104	31	0	Total District Development Fund			31
78	113	175	Total			168

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Housing General Fund

General Fund Estimate Summary

2005/06 Actual £000	2006/07 Original Estimate £000	2006/07 Revised Estimate £000		Gross Expend £000	2007/08 Gross Income £000	Net Expend £000
Direct Services						
113	223	583	Private Sector Housing	1,668	967	701
262	251	238	Homeless	673	451	222
43	47	48	Housing Strategy	45	0	45
16	726	1,012	Affordable Housing Grants	722	0	722
0	0	0	Leasehold Services Administration	150	150	0
434	1,247	1,881	Portfolio Total	3,258	1,568	1,690
362	1,197	1,783	Continuing Services Budget			1,486
31	41	59	Continuing Services Budget - Growth			178
0	0	0	Continuing Services Budget - Savings			0
393	1,238	1,842	Total Continuing Services Budget			1,664
41	9	39	District Development Fund - Expenditure			26
0	0	0	District Development Fund - Savings			0
41	9	39	Total District Development Fund			26
434	1,247	1,881	Portfolio Total			1,690

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Leisure & Young People

General Fund Estimate Summary

2005/06 Actual £000	2006/07			2007/08 Gross Expend £000	2007/08 Gross Income £000	Net Expend £000
	Original Estimate £000	Revised Estimate £000				
Direct Services						
3,000	2,254	2,247	Leisure Facilities	2,036	183	1,853
685	746	741	Arts, Museum & Library	794	21	773
588	656	672	Parks & Grounds	697	2	695
(597)	(493)	(415)	North Weald Centre	850	1,308	(458)
528	665	629	Sports Development & Other Miscellaneous Amenities	780	83	697
4,204	3,828	3,874	Total (Transferred to GF Summary)	5,157	1,597	3,560
Support and Trading Services						
366	366	405	Leisure Services Administration	416	0	416
216	206	179	Leisure Contracts	183	0	183
(392)	(385)	(416)	Recharged to this Portfolio	(423)	0	(423)
(190)	(187)	(168)	Recharged to other Portfolio's	(176)	0	(176)
0	0	0	Total	0	0	0
4,204	3,828	3,874	Portfolio Total	5,157	1,597	3,560
3,855	3,523	3,545	Continuing Services Budget			3,502
279	0	0	Continuing Services Budget - Growth			10
(108)	(218)	(218)	Continuing Services Budget - Savings			(60)
4,026	3,305	3,327	Total Continuing Services Budget			3,452
344	617	592	District Development Fund - Expenditure			138
(166)	(94)	(45)	District Development Fund - Savings			(30)
178	523	547	Total District Development Fund			108
4,204	3,828	3,874	Portfolio Total			3,560

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Civil Engineering & Maintenance

General Fund Estimate Summary

2005/06 Actual £000's	2006/07 Original Estimate £000's	Revised Estimate £000's		Gross Expend £000's	2007/08 Gross Income £000's	Net Expend £000's
			Direct Services			
461	405	418	Highways	574	143	431
(492)	(375)	(413)	Car & Lorry Parking	1,062	1,502	(440)
614	737	602	Land Drainage & Sewerage	907	50	857
583	767	607	Total (Transferred to GF Summary)	2,543	1,695	848
			Support and Trading Services			
335	343	299	Building Services	346	0	346
815	938	872	Grounds Maintenance	1,083	145	938
240	264	245	Civil Engineering	307	23	284
228	260	196	Fleet Operations	372	165	207
(384)	(442)	(448)	Recharged To This Portfolio	(615)	(91)	(524)
(1,234)	(1,363)	(1,164)	Recharged To Other Portfolio's	0	1,251	(1,251)
0	0	0	Total	1,493	1,493	0
583	767	607	Portfolio Total	4,036	3,188	848
424	598	512	Continuing Services Budget			578
30	27	31	Continuing Services Budget - Growth			80
(28)	0	0	Continuing Services Budget - Savings			(45)
426	625	543	Total Continuing Services Budget			613
166	192	117	Development Fund - Expenditure			285
(9)	(50)	(53)	Development Fund - Savings			(50)
157	142	64	Total District Development Fund			235
583	767	607	Portfolio Total			848

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Planning and Economic Development

General Fund Estimate Summary

2005/06 Actual £000	2006/07			2007/08		Net Expend £000
	Original Estimate £000	Revised Estimate £000		Gross Expend £000	Gross Income £000	
Direct Services						
110	130	90	Economic Development	101	0	101
17	18	20	Public Transport Support	20	0	20
194	214	202	Countrycare	220	20	200
186	217	195	Conservation Policy	224	0	224
4	0	0	Waltham Abbey Hers Scheme	0	0	0
365	718	511	Forward Planning	630	3	627
85	46	85	Town Centre Enhancements	113	0	113
961	1,343	1,103	Total Direct Services	1,307	22	1,285
Regulatory Services						
290	255	248	Planning Appeals	252	0	252
390	596	529	Development Control Enforcement	615	2	613
569	654	620	Development Control	994	582	412
0	0	0	Building Control Fee Earning	625	625	0
130	140	158	Building Control Non Fee Earning	162	0	162
1,379	1,645	1,555	Total Regulatory Services	2,648	1,209	1,439
2,340	2,988	2,658	Total (Transferred to GF Summary)	3,955	1,231	2,724
Support and Trading Services						
209	214	441	Planning Administration	522	1	521
(173)	(177)	(414)	Recharged to this Portfolio	(493)	(1)	(492)
(36)	(37)	(27)	Recharged to other Portfolios	(28)		(28)
0	0	0	Total	0	0	(0)
2,340	2,988	2,658	Portfolio Total	3,955	1,231	2,724
2,186	2,385	2,224	Continuing Services Budget			2,370
27	76	117	Continuing Services Budget - Growth			14
(65)	(18)	(45)	Continuing Services Budget - Savings			(9)
2,148	2,443	2,296	Total Continuing Services Budget			2,375
419	617	515	District Development Fund - Expenditure			364
(227)	(72)	(153)	District Development Fund - Savings			(15)
192	545	362	Total District Development Fund			349
2,340	2,988	2,658	Portfolio Total			2,724

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Environmental Protection

General Fund Estimate Summary

2005/06 Actual £000's	2006/07 Original Estimate £000's	2006/07 Revised Estimate £000's		2007/08 Gross Expend £000's	2007/08 Gross Income £000's	Net Expend £000's
Direct Services						
1,220	1,337	1,420	Environmental Health	1,432	47	1,385
3,521	4,172	6,245	Waste Management	6,114	758	5,356
48	96	92	Environmental Initiatives	99	0	99
4,789	5,605	7,757	Total Direct	7,645	805	6,840
Regulatory Services						
(23)	43	61	Licensing and Registrations	127	69	58
6	16	16	Hackney Carriages Licensing	126	112	14
(17)	59	77	Total Regulatory	253	181	72
4,772	5,664	7,834	Total (Transferred to GF Summary)	7,898	986	6,912
Support and Trading Services						
533	542	550	Environmental Administration	558	0	558
(299)	(349)	(358)	Recharged To This Portfolio	(362)	0	(362)
(234)	(193)	(192)	Recharged To Other Portfolio's		196	(196)
0	0	0	Total	196	196	0
4,772	5,664	7,834	Portfolio Total	8,094	1,182	6,912
4,745	5,298	5,497	Continuing Services Budget			6,901
125	184	1,545	Continuing Services Budget - Growth			11
(52)	0	(262)	Continuing Services Budget - Savings			0
4,818	5,482	6,780	Total Continuing Services Budget			6,912
181	235	1,132	Development Fund - Expenditure			56
(227)	(53)	(78)	Development Fund - Savings			(56)
(46)	182	1,054	Total District Development Fund			0
4,772	5,664	7,834	Portfolio Total			6,912

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CONTINUING SERVICES BUDGET - GROWTH / (SAVINGS) LIST

Portfolio	Service	2007/08 Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Leaders Portfolio					
	Civic and Member	(12) ***			
	Civic Ceremonial	2 ***			
	Civic Ceremonial	5 ***			
	Elections	3 ***			
	Member Electronic Services (Trans from IEG)				
	Car Hire/ Civic Awards				
	Additional Support for Chairman				
	Running Costs of New Software				
	Total Leader's Portfolio	(2)	0	0	0
Community Wellbeing					
	Total Community Wellbeing				
Finance, Performance Management, and Corporate Support Services					
	Local Taxation	(2) ***			
	Local Taxation	(21) ***			
	Finance Miscellaneous	4 ***			
	Housing Benefits/Local Taxation	16 ***	16	4	
	Car Leasing	(10) **			
	Office Accommodation	7 ***			
	All Services	(38) ***			
	All Services	(35) ***			
	All Services	(4) ***			
	Energy Sites	44 ***			
	NDR Increase in Court Cost Fees				
	Council Tax Increase in Court Costs				
	Building Maintenance- Inflation				
	Replacement Revenues & Benefits system				
	Amendments to Scheme				
	Additional costs of reletting office cleaning contract				
	Computer Equipment New Procurement Arrangements				
	New Mobile Phones Contract				
	New Photocopier Contract				
	Energy Costs				
	Total Finance, Performance Management and Corporate Support Services	(39)	16	4	0
Customer Services, Media, Communications & ICT					
	Total Customer Services, Media, Communications & ICT				

Housing	Private Sector Housing	19	**
	Private Sector Housing	41	***
	Private Sector Housing	5	***
	Reinstatement Grants	113	***
	End of Subsidy	331	1
	Total Housing	178	331
			1
Leisure	Leisure Management	(50)	***
	Waltham Abbey Leisure Centre	(10)	***
	Leisure Services	10	***
	Leisure Centre Income Share		
	Revision of Joint use Agreement		
	Increased Energy Costs		
	Total Leisure	(50)	0
		0	0
Environmental Protection	Pollution Control	11	**
	Bobbingworth Tip Maintenance	7	
	Total Environmental Protection	11	7
		7	0
Planning & Economic Development	Tourism	5	**
	Building Control	(9)	***
	Building Control	9	***
	End of Sec 106 contribution to W Abbey TIC		
	Additional Income		
	Building Control Ring Fence		
	Total Planning & Economic Development	5	
Civil Engineering & Maintenance	Off Street Car Parking	75	***
	Off Street Car Parking	(45)	***
	Grounds Maintenance/Car Parking	5	***
	Free Saturday Parking		
	Increased Income		
	Increased Energy Costs		
	Total Civil Engineering & Maintenance	35	0
		0	0
	Total CSB	138	354
			5

Key:

* Items that were originally part of the 2006/07 budget but have slipped.

** Items that were part of the 2006/07 budget cycle but related to future years.

*** New items put forward during the 2007/08 budget cycle.

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DISTRICT DEVELOPMENT FUND		Estimate £000's	Estimate £000's	Estimate £000's	Estimate £000's
Portfolio	Service	2007/08	2008/09	2009/10	2010/11
Leader's Portfolio	Corporate Policy Making Civic and Member	10 **			
	Dev of Community Strategy-consulting & printing Audit & Governance Committee Training	2 ***			
Total Leader's Portfolio		12			
Community Wellbeing					
Total Community Wellbeing					
Finance, Performance and Corporate Support Services	Housing Benefits	40 ***			
	Insurance/Risk Management	9 *			
	Office Accommodation	66 **	24	12	
	Housing Benefits	(123) ***			
	Housing Benefits	(44) ***			
	Housing Benefits/Local Taxation	80 ***	40		
	Finance Miscellaneous	20 *			
	Legal Services	9 *			
	Legal Services	17 *			
	Legal Services	41 *			
	Cover for Maternity leave				
	Implementation of Risk Management Strategy				
	Essential Work to Civic Offices				
	Grant - Verification Framework				
	Housing Benefit Admin Grant (New Formula)				
	Replacement Revenues & Benefits system				
	Finance System Outstanding Commitments				
	Data capture re Land Terrier				
	Computerisation of Land Terrier records				
	Registration of Unregistered Titles				
Total Finance, Performance Management and Corporate Support Services		115	64	12	0
Customer Services, Media, Communications & ICT					
	Public Relations	31			
	Improvements to Main Reception Area				
Total Customer Services, Media, Communications & ICT		31	0	0	0
Housing					
	Homelessness	9 *			
	Private Sector Housing	4 *			
	Private Sector Housing	10 ***	10		
	Private Sector Housing	3 **			
	Homelessness Prevention Officers				
	Housing strategy and empty homes surveys				
	Consultancy Private Sector Assistance Policy				
	Handyperson Scheme				
Total Housing		26	10		

Leisure	Leisure Management	Alternative Management	151 **	
	Community Development	Provision of Portakabin	7 *	
	North Weald Airfield	Scouts Jamboree Additional Income	(50) ***	
	Arts Programme	Additional Projects	20 **	5
	Arts Programme	Additional Projects	(20) **	(5)
	Sports Development	Additional Projects	30 **	
	Sports Development	Additional Projects	(30) **	
	Total Leisure & Health		108	0 0
Environmental	Waste Management	Recycling Measures	56 **	
	Waste Management	Government Grant	(56) **	
	Total Environmental Protection		0	4 1
Planning & Economic Development	Forward Planning	High Hedges Legislation - Staffing	18 **	4
	Planning Services	Planning Delivery Grant 1	15 **	
	Planning Services	Planning Delivery Grant 2	24 **	
	Planning Services	Planning Delivery Grant 3	10 **	14
	Planning Services	Planning Delivery Grant 4		40
	Planning Services	Planning Delivery Grant 4		(40)
	Planning Services	Planning Delivery Grant 5	15 ***	
	Planning Services	Planning Delivery Grant 5	(15) ***	
	Enforcement	Paynes Lane Traveller Incursion	122 *	
	Forward Planning	Local Plan Amendment plus temporary Local Plan Officer	160 *	
	Total Planning & Economic Development		349	18
Civil Engineering & Maintenance	Land Drainage	Remedial Works Principal Ordinary Watercourses	199 **	90
	Land Drainage	Senior Engineer (2 Years)	50 **	
	Land Drainage	Reimbursement from Environment Agency	(50) **	
	Highways	Residual Costs	36 **	
	Total Civil Engineering & Maintenance		235	90
	Total District Development Fund		876	186 13 0
Other Items				
	Reimbursement of Highways Residual Costs		(117) **	
	Local Authority Business Growth Incentives Scheme		(200) ***	
	Total Portfolio Related District Development Fund		559	186 13 0

SUMMARY

People First	12		
Community Wellbeing			
Finance and Performance Management	115	64	12
Corporate Support Services	31		
Housing	26	10	
Leisure & Health	108		
Environmental Protection		4	1
Planning & Economic Development	349	18	
Civil Engineering & Maintenance	235	90	
Other Items	(317)		
	559	186	13
			0

Key:

- * Items that were originally part of the 2006/07 budget but have slipped.
- ** Items that were part of the 2006/07 budget cycle but related to future years.
- *** New items put forward during the 2007/08 budget cycle.

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Medium Term Financial Strategy

Introduction

1. For a number of years as part of the Council's sound financial planning arrangements a four-year financial forecast has been prepared. This document allows a considered view to be taken of spending and resources. Without a medium term financial strategy finances would be managed on an annual basis leading to sudden expansions and contractions in services. Clearly such volatility would lead to waste and be confusing for stakeholders.
2. Managing this Council's finances has been made easier by isolating one off fluctuations (District Development Fund or DDF) from the ongoing core services (Continuing Service Budgets or CSB). This distinction highlights the differing effects in the medium term of approving different types of initiative.
3. A key part of the strategy is future rises in Council Tax and the Council has a stated ambition to not only remain a low tax authority but to ultimately have the lowest Band D charge in Essex. The Council currently has the third lowest charge and last year set the lowest increase in Essex.
4. At its 25 September 2006 meeting the Finance and Performance Management Cabinet Committee decided that communication of the revised medium term financial strategy to staff, partners and other stakeholders be undertaken by way of publishing key bullet points in appropriate publications.

Previous Four-Year Forecast

5. That meeting of the Finance and Performance Management Cabinet Committee considered the annual Financial Issues Paper and an updated medium term financial strategy. At that time Members attention was drawn to the impact on the budget of the waste management contractor being placed in administration earlier in the year. Some £2.33m of supplementary estimates have been approved to deal with the costs incurred during the administration, the higher level of charges from the interim contractor and enhancements to the service for weekly summertime collections.
6. In formulating an updated medium term financial strategy it was necessary to consider how much of the supplementary estimates would ultimately be CSB growth. Given the assertions from the previous contractor that they had underbid, the higher costs of the interim contractor and the Council decision to retain summertime collections as part of the ongoing service, it was felt appropriate to include £1.5m as CSB growth.
7. At that time the predicted General Fund balance at 1 April 2007 of £5.328m represented just over 32% of the anticipated NBR for 2007/08 and was therefore somewhat higher than the guideline of 25%. However, the additional costs that are now likely to be incurred on waste management meant that by 1 April 2009 the predicted balance had reduced to £2.65m. This represented only 15% of the net budget requirement for 2009/10 and so highlighted the clear need for a review of services and expenditure.

Updated Four-Year Forecast

8. Following the consideration of the initial medium term strategy, Members decided that the net CSB for 2007/08 should be capped at £17m. To achieve this a round of discussions were held between the Portfolio Holder for Finance, Performance Management and Corporate Support Services, other Portfolio Holders and Heads of Service. These discussions provided the necessary budget reductions and a revised medium term financial strategy has been prepared and is attached as Annexes 13 a and b. In constructing the forecast it has been necessary to make certain assumptions, these are set out below:
 - a. CSB Growth – growth items for 2007/08 have been included at a total of £138,000. For 2008/09 growth items of £354,000 have currently been identified. The growth of £1.5m previously mentioned for waste management has been included in the revised estimates for 2006/07, but is partly offset by an increase in income from recycling credits of £262,000.
 - b. DDF – all of the known items for the four-year period have been included and at the end of the period a balance of £809,000 is still available. This is after revising the estimates for income from the Local Authority Business Growth Incentive scheme from £200K to £500K for 2006/07 and from £0 to £200K in 2007/08. The exact amounts to be received are still uncertain as the formula has changed, but a national ceiling will be applied to cap total income from the scheme, which will lead to some authorities receiving less than the amount suggested by the pure application of the formula.
 - c. Grant Funding – the provisional settlement figures have been included for 2007/08. It has been assumed that for 2008/09 and subsequent years the gross grant entitlement will increase by 2%. It has also been assumed that the amount lost to support the floor for other authorities will reduce over the period to give net grant increases of 3.5% in 2008/09, 2.5% in 2009/10 and 2.1% in 2010/11.
 - d. Council Tax Increase – Members have confirmed they wish to keep rises in line with inflation and so an increase of 3.5% has been included for 2007/08. It is anticipated that growth in the retail prices index will reduce from the current level of 4.4% to 2.5% in subsequent years and so 2.5% has been used for future increases.
9. Members are asked to approve the medium term financial strategy for communication to appropriate stakeholders. The strategy will be monitored during the year and updated for the September 2007 meeting of the Finance and Performance Management Cabinet Committee.

REVISED GENERAL FUND FOUR YEAR FORECAST 2006/07 - 2010/11

ORIGINAL 2006/07		REVISED				
		FORECAST 2006/07	FORECAST 2007/08	FORECAST 2008/09	FORECAST 2009/10	FORECAST 2010/11
£'000	NET REVENUE EXPENDITURE	£'000	£'000	£'000	£'000	£'000
14,480	Continuing Services Budget	14,406	16,842	17,737	18,860	19,450
773	CSB - Growth Items	1,738	138	354	5	0
15,253	Total C.S.B	16,144	16,980	18,091	18,865	19,450
1,655	One - off Expenditure	2,173	876	186	13	0
150	Contribution to/from Insurance reserve	150	0	0	0	0
17,058	Total Net Operating Expenditure	18,467	17,856	18,277	18,878	19,450
-1,655	Contribution to/from (-) DDF Balances	-2,173	-876	-186	-13	0
389	Contribution to/from (-) Balances	-502	-321	-925	-1,269	-1,449
15,792	Net Budget Requirement	15,792	16,659	17,166	17,596	18,001
FINANCING						
9,117	Government Support (NNDR+RSG)	9,117	9,350	9,537	9,728	9,922
-490	RSG Floor Gains/(-Losses)	-490	-189	-58	-12	0
8,627	Total External Funding	8,627	9,161	9,479	9,716	9,922
7,160	District Precept	7,160	7,498	7,687	7,880	8,078
5	Collection Fund Adjustment	5	0	0	0	0
15,792	To be met from Government Grants and Local Tax Payers	15,792	16,659	17,166	17,596	18,001
	Band D Council Tax	134.73	139.50	143.01	146.61	150.30
	Percentage Increase %		3.5	2.5	2.5	2.5

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REVISED GENERAL FUND FOUR YEAR FORECAST 2006/07 - 2010/11

	REVISED FORECAST 2006/07	FORECAST 2007/08	FORECAST 2008/09	FORECAST 2009/10	FORECAST 2010/11
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	6,456	5,954	5,633	4,708	3,439
Surplus/Deficit(-) for year	-502	-321	-925	-1,269	-1,449
Balance C/Forward	5,954	5,633	4,708	3,439	1,990
DISTRICT DEVELOPMENT FUND					
Balance B/forward	3,007	1,567	1,008	822	809
Income	733	317	0	0	0
Transfer Out	-2,173	-876	-186	-13	0
Balance C/Forward	1,567	1,008	822	809	809
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	20,073	23,646	19,139	16,598	15,986
New Usable Receipts	10,565	914	831	819	817
CR Used to Fund Capital Expenditure					
- Transitional Relief Receipts	-1,722	0	0	0	0
- Other Capital Receipts	-5,270	-5,421	-3,372	-1,431	-1,137
Balance C/Forward	23,646	19,139	16,598	15,986	15,666
TOTAL BALANCES	31,167	25,780	22,128	20,234	18,465

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**HOUSING PORTFOLIO
HOUSING REVENUE ACCOUNT SUMMARY**

<i>2005/06</i>	<i>2006/07</i>		<i>2007/08</i>
<i>Actual £000's</i>	<i>Original Estimate £000's</i>	<i>Revised Estimate £000's</i>	<i>Original Estimate £000's</i>
EXPENDITURE			
3,476	3,994	4,083	Supervision & Management General 3,997
2,848	3,037	3,178	Supervision & Management Special 3,404
380	358	392	Rents,Rates Taxes & Insurances 335
4,980	5,500	5,500	Contribution to Repairs Fund 5,700
11,684	12,889	13,153	MANAGEMENT & MAINTENANCE 13,436
7,321	8,381	7,638	Depreciation 7,667
39	46	48	Debt Management Expenses 46
7,749	8,345	8,230	HRA Subsidy Payable 8,868
64	95	75	Provision for Bad/Doubtful Debts 75
26,857	29,756	29,144	30,092
INCOME			
21,201	22,157	22,094	Gross Rent of Dwellings 23,004
2,364	2,409	2,365	Non Dwellings Rent 2,476
1,637	1,598	1,592	Charges for Services & Facilities 1,711
236	285	283	Contribution from General Fund 293
25,438	26,449	26,334	27,484
1,419	3,307	2,810	NET COST OF SERVICES 2,608

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HOUSING PORTFOLIO HOUSING REVENUE ACCOUNT SUMMARY

<i>2005/06</i>	<i>2006/07</i>		<i>2007/08</i>
<i>Actual</i> £000's	<i>Original</i> <i>Estimate</i> £000's	<i>Revised</i> <i>Estimate</i> £000's	<i>Original</i> <i>Estimate</i> £000's
1,419	3,307	2,810	2,608
			NET COST OF SERVICES
(1,560)	(1,374)	(1,726)	Interest on Receipts and Balances (1,740)
(2,747)	(3,869)	(3,126)	Depreciation (3,077)
(75)	369	299	Pensions Interest Payable/Return on Assets 299
<u>(2,963)</u>	<u>(1,567)</u>	<u>(1,743)</u>	NET OPERATING INCOME <u>(1,910)</u>
APPROPRIATIONS			
2,000	2,150	2,388	Capital Exp. Charged to Revenue 1,985
128	(181)	(261)	FRS 17 Adjustment (269)
15	15	15	Transfer to Capital Reserves 15
55	0	0	Transfer to General Fund 0
<u>2,198</u>	<u>1,984</u>	<u>2,142</u>	<u>1,731</u>
<u>(765)</u>	<u>417</u>	<u>399</u>	(SURPLUS)/DEFICIT FOR YEAR <u>(179)</u>
4,834	5,599	5,599	BALANCE BROUGHT FORWARD 5,200
(765)	417	399	(SURPLUS)/DEFICIT FOR YEAR (179)
<u>5,599</u>	<u>5,182</u>	<u>5,200</u>	BALANCE CARRIED FORWARD <u>5,379</u>

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HOUSING PORTFOLIO HOUSING REPAIRS FUND SUMMARY

<i>2005/06</i>	<i>2006/07</i>			<i>2007/08</i>
<i>Actual</i>	<i>Original</i>	<i>Revised</i>		<i>Original</i>
<i>£000's</i>	<i>Estimate</i>	<i>Estimate</i>		<i>Estimate</i>
<i>£000's</i>	<i>£000's</i>	<i>£000's</i>		<i>£000's</i>
EXPENDITURE				
3,121	3,532	3,278	Responsive and Void Repairs	3,444
1,793	1,803	1,977	Planned & Cyclical Maintenance	2,032
39	227	229	Other items	183
<u>4,953</u>	<u>5,562</u>	<u>5,484</u>	TOTAL EXPENDITURE	<u>5,659</u>
<u>(4,980)</u>	<u>(5,500)</u>	<u>(5,500)</u>	CONTRIBUTION FROM HRA	<u>(5,700)</u>
<u>(27)</u>	<u>62</u>	<u>(16)</u>	(SURPLUS)/DEFICIT FOR YEAR	<u>(41)</u>
3,048	3,075	3,075	BALANCE BROUGHT FORWARD	3,091
(27)	62	(16)	(SURPLUS)/DEFICIT FOR YEAR	(41)
<u>3,075</u>	<u>3,013</u>	<u>3,091</u>	BALANCE CARRIED FORWARD	<u>3,132</u>

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HOUSING PORTFOLIO MAJOR REPAIRS RESERVE SUMMARY

<i>2005/06</i>	<i>2006/07</i>			<i>2007/08</i>
<i>Actual</i>	<i>Original</i>	<i>Revised</i>		<i>Original</i>
<i>£000's</i>	<i>Estimate</i>	<i>Estimate</i>		<i>Estimate</i>
<i>£000's</i>	<i>£000's</i>	<i>£000's</i>		<i>£000's</i>
			EXPENDITURE	
2,692	5,313	4,889	CAPITAL EXPENDITURE	4,179
2,747	3,854	3,111	TRANSFERRED TO HRA	3,062
<u>5,439</u>	<u>9,167</u>	<u>8,000</u>	TOTAL EXPENDITURE	<u>7,241</u>
<u>(7,321)</u>	<u>(8,381)</u>	<u>(7,638)</u>	DEPRECIATION	<u>(7,667)</u>
<u>(1,882)</u>	<u>786</u>	<u>362</u>	(SURPLUS)/DEFICIT FOR YEAR	<u>(426)</u>
1,415	3,297	3,297	BALANCE BROUGHT FORWARD	2,935
(1,882)	786	362	(SURPLUS)/DEFICIT FOR YEAR	(426)
<u>3,297</u>	<u>2,511</u>	<u>2,935</u>	BALANCE CARRIED FORWARD	<u>3,361</u>

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**CAPITAL PROGRAMME
2006/07 to 20010/11 FORECAST**

	2006/07 Original £000	2006/07 Revised £000	2007/08 Forecast £000	2008/09 Forecast £000	2009/10 Forecast £000	20010/11 Forecast £000	5 Year Total £000
EXPENDITURE							
Finance, Perf Man & CSS	299	334	423	215	0	0	972
Leader of The Council	0	30	0	0	0	0	30
Customer Services, Media & IT	1,763	651	637	2,245	594	300	4,427
Community Wellbeing	0	0	0	0	0	0	0
Leisure	552	613	50	50	50	50	813
Environmental Protection	2,082	892	1,300	0	0	0	2,192
Civil Engineering & Maintenance	4,501	2,645	2,282	337	262	262	5,788
Total Non-Housing	9,197	5,165	4,692	2,847	906	612	14,222
Housing GF	1,210	2,396	1,855	700	700	700	6,351
HRA	7,820	7,869	6,204	6,238	4,907	4,821	30,039
Housing DLO	50	50	50	50	50	50	250
Total Housing	9,080	10,315	8,109	6,988	5,657	5,571	36,640
TOTAL	18,277	15,480	12,801	9,835	6,563	6,183	50,862
FUNDING							
DCLG Grant for DFG	130	126	125	125	125	125	626
DCLG Grant for Other Housing Gts	0	250	420	0	0	0	670
IEG Grant	260	183	240	0	0	0	423
DEFRA Grant	53	54	56	0	0	0	110
PDG Grant	0	33	0	0	0	0	33
DCA Election Pilot Grant	0	10	0	0	0	0	10
Market Funding	69	52	50	50	50	50	252
Leaseholder Funding	30	30	30	30	30	30	150
Private Funding	238	51	235	0	0	0	286
ECC Contribution	459	482	0	0	0	0	482
Total Grants	1,239	1,271	1,156	205	205	205	3,042
HRA (Use of Transitional Relief)	377	672	0	0	0	0	672
Housing GF (Use of Trans. Relief)	550	1,050	0	0	0	0	1,050
Housing GF (Other Capital Receipts)	320	970	1,100	575	575	575	3,795
Non Housing (Other Capital Receipts)	8,328	4,300	4,321	2,797	856	562	12,836
Total Capital Receipts	9,575	6,992	5,421	3,372	1,431	1,137	18,353
HRA - RCCO	2,150	2,388	1,985	885	1,279	1,213	7,750
HRA - MRR	5,313	4,829	4,239	5,373	3,648	3,628	21,717
Total Revenue Contributions	7,463	7,217	6,224	6,258	4,927	4,841	29,467
TOTAL	18,277	15,480	12,801	9,835	6,563	6,183	50,862

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**CAPITAL PROGRAMME
2006/07 to 2010/11 FORECAST**

	2006/07 Original £000	2006/07 Revised £000	2007/08 Forecast £000	2008/09 Forecast £000	2009/10 Forecast £000	2010/11 Forecast £000	5 Year Total £000
Finance, Perf Man & CSS							
Youth Sports Facilities	90	124	121	0	0	0	245
Countrycare Vehicle	0	28	0	0	0	0	28
Planning Service Accommodation Works	0	35	0	0	0	0	35
Civic Office Works	9	26	36	215	0	0	277
Messenger Vehicles	0	0	16	0	0	0	16
Waste Compactor	0	16	0	0	0	0	16
Reprographics Plate Maker	0	0	0	0	0	0	0
General Capital Contingency	200	105	250	0	0	0	355
Total	299	334	423	215	0	0	972
Leader of The Council							
Election Pilot Grant Expenditure	0	10	0	0	0	0	10
Merlin Way Land Sale	0	20	0	0	0	0	20
Total	0	30	0	0	0	0	30
Customer Services, Media & ICT							
IEG : Customer Services Trans Prog	260	21	240	0	0	0	261
IEG : ERDMS	0	150	0	0	0	0	150
IEG : Legal Case Man. System	0	2	0	0	0	0	2
IEG : Committee Man. System	0	10	0	0	0	0	10
Total IEG	260	183	240	0	0	0	423
Revenues & Benefits System	13	0	97	0	0	0	97
General IT	300	368	300	300	300	300	1,568
Civic Offices Computer Suite No.2	200	50	0	0	0	0	50
Planning & Land Charges System	0	50	0	0	0	0	50
Customer Services Trans Prog	990	0	0	1,945	294	0	2,239
Total	1,763	651	637	2,245	594	300	4,427
Leisure							
Loughton Leisure Centre	0	54	0	0	0	0	54
Ongar Leisure Centre : Extention	430	453	0	0	0	0	453
N W Airfield Market Improvements	69	52	50	50	50	50	252
N.W.Airfield Security Works	0	1	0	0	0	0	1
Museum Redisplay Programme	53	53	0	0	0	0	53
Total	552	613	50	50	50	50	813
Environmental Protection							
Bobbingworth Tip	1,632	359	1,300	0	0	0	1,659
Environ. Protection Equipment	450	533	0	0	0	0	533
Total	2,082	892	1,300	0	0	0	2,192
Civil Engineering & Maintenance							
Town Centre Enhancement							
Loughton High Road Works: Phase 2	969	914	0	0	0	0	914
Loughton Broadway Works	2,860	986	1,970	0	0	0	2,956
Total T C Enhancement	3,829	1,900	1,970	0	0	0	3,870
Parking & Traffic Schemes	492	456	150	200	200	200	1,206
Housing Estate Car Parking	37	70	37	37	37	37	218
Car Park Upgrade Buckhurst Hill	0	34	0	0	0	0	34
Car Park Upgrades Cottis Lane	75	75	0	0	0	0	75
Flood Alleviation Schemes	43	57	100	75	0	0	232
Epping Drinking Fountain	0	25	0	0	0	0	25
Grounds Maint Plant & Equipt	25	28	25	25	25	25	128
Total	4,501	2,645	2,282	337	262	262	5,788
TOTAL NON-HOUSING PROGRAMME	9,197	5,165	4,692	2,847	906	612	14,222

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**CAPITAL PROGRAMME
2006/07 to 2010/11 FORECAST**

	2006/07 Original £000	2006/07 Revised £000	2007/08 Forecast £000	2008/09 Forecast £000	2009/10 Forecast £000	2010/11 Forecast £000	5 Year Total £000
Housing General Fund							
Contribution to Affordable Housing							
Small Housing Sites: Estuary H.A.	500	500	500	0	0	0	1,000
Unallocated Schemes	210	500	235	0	0	0	735
Total Affordable Housing Contributions	710	1,000	735	0	0	0	1,735
Disabled Facilities Grants	300	500	500	500	500	500	2,500
Other Private Sector Grants	200	509	620	200	200	200	1,729
Alfred Road Drainage Works	0	9	0	0	0	0	9
CPO 8/8A Sun Street, W. Abbey	0	378	0	0	0	0	378
TOTAL HOUSING GENERAL FUND	1,210	2,396	1,855	700	700	700	6,351
Housing Revenue Account							
Springfields, Waltham Abbey	1,870 *	1,026	1,838	1,837	0	0	4,701
Wickfields	1,100	790	0	0	0	0	790
Norway House Improvements	50 *	67	50	50	50	50	267
Communal TV Upgrade	64	92	78	90	0	0	260
Heating/Rewiring	1,128 *	1,356	1,010	1,070	1,100	1,040	5,576
Windows/Roofing/Asbestos/Water Tanks	821 *	919	940	890	990	940	4,679
Other Planned Maintenance	382	496	470	418	380	380	2,144
Total Planned Maintenance	5,415	4,746	4,386	4,355	2,520	2,410	18,417
Structural Schemes	200 *	765	235	285	769	635	2,689
Cyclical Maintenance	65 *	18	5	5	5	5	38
Small Capital Repairs	400 *	481	400	400	400	350	2,031
Cost Reflective Repairs	950 *	500	500	500	500	568	2,568
Non-Cost Reflective Repairs	370	675	208	208	208	328	1,627
Disabled Adaptations	350	556	395	410	430	450	2,241
Other Repairs and Maintenance	60 *	113	60	60	60	60	353
Feasibilities	10	15	15	15	15	15	75
TOTAL HRA	7,820	7,869	6,204	6,238	4,907	4,821	30,039
Housing DLO Vehicles	50	50	50	50	50	50	250
TOTAL DLO	50	50	50	50	50	50	250
TOTAL HOUSING PROGRAMME	9,080	10,315	8,109	6,988	5,657	5,571	36,640

* EFDC Affordable Housing
& Regeneration Projects

5,544	5,245	5,038	5,097	3,874	3,648	22,902
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CAPITAL RECEIPTS
2006/07 to 2010/11 FORECAST

	2006/07 Revised £000	2007/08 Forecast £000	2008/09 Forecast £000	2009/10 Forecast £000	2010/11 Forecast £000	5 Year Total £000
Receipts Generation						
Housing Revenue Account	3,990	3,230	2,900	2,880	2,875	15,875
General Fund	8,742	0	0	0	0	8,742
Total Receipts	12,732	3,230	2,900	2,880	2,875	24,617
Receipts Analysis						
Usable Receipts	9,843	914	831	819	817	13,224
Payment to Govt Pool	2,889	2,316	2,069	2,061	2,058	11,393
Total Receipts	12,732	3,230	2,900	2,880	2,875	24,617
Usable Capital Receipt Balances						
Opening Balance	20,073	23,646	19,139	16,598	15,986	20,073
Usable Receipts Arising	9,843	914	831	819	817	13,224
Transitional Payment from Pool (which must be used on Housing assets)	722	0	0	0	0	722
Use of Transitional Relief Receipts	(1,722)	0	0	0	0	(1,722)
Use of Other Capital Receipts	(5,270)	(5,421)	(3,372)	(1,431)	(1,137)	(16,631)
Closing Balance	23,646	19,139	16,598	15,986	15,666	15,666

MAJOR REPAIRS RESERVE
2006/07 to 2010/11 FORECAST

	2006/07 Revised £000	2007/08 Forecast £000	2008/09 Forecast £000	2009/10 Forecast £000	2010/11 Forecast £000	5 Year Total £000
Opening Balance	3,312	3,010	3,376	2,603	3,555	3,312
Major Repairs Allowance	4,527	4,605	4,600	4,600	4,601	22,933
Use of MRR	(4,829)	(4,239)	(5,373)	(3,648)	(3,628)	(21,717)
Closing Balance	3,010	3,376	2,603	3,555	4,528	4,528

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The Chief Financial Officer's report to the Council on the robustness of the estimates for the purposes of the Council's 2007/08 budgets and the adequacy of the reserves.

Introduction

1. The Local Government Act 2003 section 25 introduced a specific personal duty on the "Chief Financial Officer" (CFO) to report to the Authority on the robustness of the estimates for the purposes of the budget and the adequacy of reserves. The Act requires Members to have regard to the report when determining the Council's budget requirement for 2007/08. Where this advice is not accepted, this should be formally recorded within the minutes of the Council meeting. The Council will consider the recommendations of the Cabinet on the budget for 2007/08 and will determine the planned level of the Council's balances.
2. Sections 32 and 43 of the Local Government Finance Act 1992 also require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.
3. There is also a range of safeguards, which are in place to ensure local authorities do not over-commit themselves financially. These include:
 - The CFO's s.114 powers, which require a report to the Cabinet and to all members of the local authority if there is or is likely to be unlawful expenditure or an unbalanced budget
 - The Prudential Code, which applied to capital financing from 2004/05.

The Robustness of the Recommended Budget

4. A number of reports to the Cabinet in recent years have highlighted the difficulties inherent in setting budgets, not least because of significant changes in the level and complexity of Government funding and continuing pressure to protect and develop services. At the same time major changes have been introduced to the way the Council is structured and managed with Member and officer roles and responsibilities changing fundamentally. These changes are still on going, particularly for Leisure and Customer Services, and do represent a significant risk to the Council's ability to assess properly all the financial pressures it faces.
5. However the Council's budget process, developed over a number of years, has many features that promote an assurance in its reliability:
 - The rolling four year forecast provides a yardstick against which annual budgets can be measured
 - The early commencement of the budget process and the clear annual timetable for both Members and officers including full integration with the BVPP process promotes considered and reasoned decision making
 - The establishment of budget parameters in the summer is designed to create a clear focus before the budget process commences

- The analysis of the budget between the continuing services and one off District Development Fund items smoothes out peaks and troughs and enables CSB trends to be monitored
 - The adoption of a prudent view on the recognition of revenue income and capital receipts
 - The annual bid process whereby new or increased budgets require reports to Cabinet before inclusion in the draft budget
 - Clear and reasoned assumptions made about unknowns, uncertainties or anticipated or forecast changes
6. Changes to the process have also created the facility for far greater consultation, particularly with the creation of an Overview and Scrutiny Panel to deal with finance and performance management issues. An onus is now placed on Portfolio Holders to deliver acceptable and accurate budgets, this is a role that has been taken seriously and with considerable understanding.
7. The budget is therefore based on strong and well-developed procedures and an integrated and systematic approach to the preparation of soundly based capital and revenue plans and accurate income and expenditure estimates. The risks or uncertainties inherent in the budget have been identified and managed, as far as is practicable, and assumptions about their impact have been made.
- 8. The conclusion is that the estimates as presented to the Council are sufficiently robust for the purposes of the Council's overall budget for 2007/08.**

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

9. Guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when the CFO considers the overall level of reserves and balances:
- Assumptions regarding inflation;
 - Estimates of the level and timing of capital receipts;
 - Treatment of demand led pressures;
 - Treatment of savings;
 - Risks inherent in any new partnerships etc;
 - Financial standing of the authority i.e. level of borrowing, debt outstanding etc;
 - The authority's track record in budget management;
 - The authority's capacity to manage in-year budget pressures;
 - The authority's virements and year-end procedures in relation to under and overspends;
 - The adequacy of insurance arrangements.
10. These issues have formed the basis for budget reports in the past and their formal adoption as an aide memoir remains useful.

Factor Assessment

a. Inflationary pressures

11. Every year base budget estimates are produced and then different inflation factors are applied to the resultant figures to take budgets to out-turn prices. It is inevitable that there will be either over or under provision for the full cost of inflation, as prices will inevitably vary against the estimates made. Efforts have been made to predict the level of inflation in the coming year, but it should be noted that there is one specific item where there could be additional costs:
12. The Council is currently mid way through a competitive tendering exercise to appoint a new long-term contractor for waste management. It will be some months yet before the identity of the new contractor and their successful tender price are known. In constructing the estimates it was necessary to consider the supplementary estimates approved by Council, after SHWM went into administration, and form a judgement on what represented CSB growth. The estimates include £1.5m of CSB growth; this was based on inflating the original SHWM tender and allowing for four months of enhanced summer collections. If the successful tender requires more growth than has been allowed for a supplementary estimate will be required.
13. The additional costs of waste management have in part been off set by an increase in income from recycling credits of £262,000. Whatever decisions are taken about the waste management service in the future it is essential that the current level of recycling is at least maintained. If the levels of recycling were to increase further additional income would be earned.
14. The annual pay award is still in doubt, as agreement has not been reached on an increase for 2007/08. The Government have stated their desire for a 2% settlement for the public sector, although with RPI at 4.4% that may not be achievable and the 2.65% included in the estimates is felt to be more realistic. Recruitment and retention is less of a concern, but some difficulty is still being experienced in certain areas. In the budgets a three per cent vacancy allowance is held centrally. It is unlikely that the Authority will have a full establishment throughout 2007/08 and so this allowance is reasonable.

b. Estimates on the level and timing of capital receipts

15. The Council has always adopted a prudent view on the level and timing of capital receipts, a position justified by past experience. Capital receipts are not recognised for budgetary purposes unless they have been received or their receipt is contractually confirmed prior to the budget being ratified.
16. The exception to this relates to receipts from council house sales. In this instance because sales occur throughout the year and the receipts are significant in providing either revenue income to the General Fund or financing the capital programme, assumptions have to be made about their generation. Sales completed in 2006/07 are likely to be similar to the 40 in 2005/06, and so slightly ahead of the current estimate of 35. It is anticipated that sales will now stabilise at 30 for the following three years.

17. Clearly if the forecasts contained in this report are not realised in full, there could be a financial impact on the General Fund because investment income to that account has been based on that level of sales. However, this is relatively unlikely given the low numbers involved.
18. Other capital receipts are likely to be generated during 2007/08. The Council is keen to dispose of surplus land and has identified sites at North Weald and in Langston Road that can be marketed. However, as stated above, no receipts are recognised prior to contractual confirmation.
19. Even with the Authority's substantial capital programme, which exceeds £50m over five years, it is anticipated that the balance of usable capital receipts at 31 March 2011 will be £15.7m. The Capital Strategy has made it clear that priority will be given to capital schemes that will create future revenue income. This follows from the increased awareness amongst Members that the using up of balances will reduce investment income.

c. Treatment of demand led pressures and savings

20. Following the problems with the waste management contract and the consequent growth in CSB, Members set a cap for net CSB of £17m for 2007/08. A round of discussions were held with Portfolio Holders and Heads of Service and it was possible to achieve sufficient reductions in expenditure and increases in income to get CSB below the cap.
21. It is clear that in order to avoid breaching the guideline on reserves it will be necessary to seek savings throughout the period covered by the medium term financial strategy. However, the current strength of reserves means that it will be possible to do this in a structured and progressive way.

d. Risks inherent in partnership arrangements etc

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

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

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

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

24. The Authority has a proven track record in financial management as borne out by previous Management Letters from the Authority's external auditors. A comparison of actual net expenditure with estimates over a number of years shows that the Council has experienced neither under or over spends at a level higher than an average of 2%.
25. However, the discipline of Financial Regulations - not incurring spending without a clear budget - must be rigidly observed, and the monitoring of the riskier budgets, particularly income budgets, needs to be maintained. The quarterly budget monitoring reports on key budgets to the Finance and

Performance Management Scrutiny Panel have now been enhanced to include significant capital projects. The production of these reports throughout the year is essential in identifying emerging problems at the earliest opportunity. This allows maximum benefit to be accrued from any corrective action taken.

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

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

h. The adequacy of insurance arrangements

27. The Council is now in the second year of a five-year agreement, which was subject to a competitive tendering process. As part of this exercise different levels of excess and policy cover were considered. The Council made a decision to undertake a greater degree of self-insurance and accept higher excess levels to reduce insurance premiums. Savings on premiums resulting from this exercise are likely to be in the order of £1m over the life of the agreement, and some of this saving is being paid into the Council's insurance fund. Any claims resulting from the acceptance of higher excesses will have to be paid from the fund. However, in 2005/06 a net surplus arose on the account, which has led to an increase in the fund from £681,000 to £831,000.

i. Pension liabilities

28. The Council makes contributions to the Pension Fund, which is invested in order to meet its liability to provide for the benefits paid to past employees and future benefits for existing employees. Employees contribute 6% of their salary. The Fund is valued every three years and the valuation as at 31 March 2004 identified a substantial deficit. In order to fund this deficit the administering authority (Essex County Council) have informed this Council that our deficit payments will need to increase by more than £850,000 per annum. If this increase were to be funded from revenue there would need to be either substantial cuts in services or large increases in Council Tax. To avoid such drastic actions an annual application is made to Department for Communities and Local Government (DCLG) for a capitalisation direction. In 2003/04 £2.5m was moved from usable capital receipts to a pension fund capital reserve in anticipation of the outcome of these applications.
29. Authority was given to capitalise the additional deficit payment in 2005/06 and so part of the reserve has been utilised. However, following concerns at the Treasury about excessive capitalisations creating pressure on the Chancellor's "Golden Rule" the regulations for issuing capitalisation directions were changed. A new "Two Gate" system has been introduced, whereby applications must satisfy the previous criteria to clear gate 1 but applications will not pass gate 2 until the national economic impact has been considered in total. Confirmation has been received that the applications to capitalise the additional pension deficit payments for 2006/07 have cleared gate 1. The DCLG will not inform authorities if they have cleared gate 2 for 2006/07 applications until 31 January 2007. If capitalisation directions are not obtained then the

additional charges to revenue will be £629,000 General Fund and £295,000 HRA for 2006/07 and £680,000 General Fund and £319,000 HRA for 2007/08.

Statement on the adequacy of the reserves and balances

30. Under CPA an assessment is made of the level of reserves and in order to achieve the 'good' ranking, an authority would have to meet either of the following criteria:
- The aggregate balance of the General Balance + Other earmarked revenue reserves + Liabilities not recognised in the financial statements (excluding unfunded pension liabilities) should be in surplus on 31 March 2007 and the General Balance should be at least equal to 5% but not more than 100% of forecast net operating expenditure for 2007/08 or
 - a formal financial risk management process should be operating, which the authority uses to justify a level of reserves.
31. The formula suggests that the Council should maintain a General Fund balance of at least £0.89m but no more than £17.86m. The Council's current best estimate of the General Fund balance at 31 March 2007 is £5.95m as shown in the Annex 13. This is clearly within the range specified but as a benchmark is not particularly useful. Therefore a risk assessment related to the Authority's individual circumstances is provided as a more meaningful benchmark against which the adequacy of the balances can be determined.
32. The following table lists those developments and cost pressures within the four-year forecast that offer the greatest risk to financial stability.

Item of risk	Estimated level of financial risk in Four Year Forecast £000	Level of risk %	Adjusted level of risk £000
Basic 5% of Net Operating Expenditure			890
Pay award being settled 1% in excess of 2.65% est. for 07/08 and future years	820	20	160
Inflationary pressures between 1-4% higher than budget	600+	20	120+
Loss of North Weald Market Income	4,000+	20	800+
General Income between 1-4% less than budget	600+	10	60+
Interest Rates 1% less than budget	500+	10	50+
Emergency Contingency	800+	20	160+
Capitalisation applications refused for 06/07 and 07/08	1,300	40	520
Renegotiating External contracts and partnership arrangements	Say 2,000+	10	200+
Total	10,620+		2,960+

33. The presentation in this table is not a scientific approach, but a crude attempt to put a broad order of scale on the main financial risks potentially facing the Council. It is meant to be thought provoking rather than definitive. It is certainly not a complete list of all the financial risks the Council faces but it shows the potential scale of some of the risks and uncertainties and the impact they may have on the Council's balances if they were to come to fruition.
34. As a starting point based on the CPA formula there is an expectation that an authority should carry a level of balance that equates to at least 5% of the net operating expenditure (NOE) of the Authority. During the period of the four-year plan NOE is expected to average out at £18.62m. Government grant for 2007/08 will be £9.16m and this sum has been reduced by £189,000 to support floor increases for other Councils. In the four-year forecast it is assumed that the system of floors and ceilings will continue, but that the amount of grant lost to support the floor will reduce over time.
35. Other councils include contingency sums in their budgets for major risk items such as pay awards, general inflation, income and emergencies. It has always been the practice of this Authority to cover such risks through its revenue balances. The income generated from the market at North Weald airfield is significant to the ongoing financial well being of the Authority. Uncertainties surrounding the future of the airfield create a risk to the Authority that needs to be recognised and quantified hence its inclusion in the list above. A number of contracts have been granted to outside bodies for the provision of Council services. The failure of any of these contracts would inevitably lead to the Council incurring costs, which may not be reimbursed. Other than certain bond arrangements there is no specific provision made in the estimates for this type of expenditure, which therefore would have to be covered by revenue balances.
36. The Council has always been conscious of its balances position as can be demonstrated by budget reports over many years. Fortunately for the Authority the question had not been whether it had a sufficient level of balance but rather that it had too much. Balances have been increasing since 2003/04 and have peaked at £6.46m as at 31 March 2006.
37. A number of policies have been determined previously to bring about reductions and the current policy reflects that deficit budgets are now necessary for the balances to fall. That is to say that the current policy allows for balances to fall to no lower than 25% of Net Budget Requirement (NBR). This is slightly different from the NOE stated above, the average NBR figure for the next four years is expected to be £17.36m therefore 25% of that figure equates to £4.34m. The current four-year forecast shows balances falling to under £2m by 2010/11.
38. The risk assessment undertaken above suggests that 20-25% of NBR is about the range that this authority should be maintaining its balances within. By 31 March 2011 balances will represent 11.1% of NBR, which is less than adequate. However, Members are aware of this situation and have stated a clear target of reducing expenditure throughout the period of the medium term financial strategy to avoid this situation occurring.
39. It has already been stated that the capital fund is expected to remain in a surplus position beyond 2010/11 and the capital programme can be fully funded.

40. The Council has a few earmarked reserves (e.g. DDF), which are intended to be used for specific purposes over a period of time of more than a single financial year. These earmarked reserves have been excluded from the assessment for this reason.
41. HRA revenue balances are expected to increase slightly from £5.2m as at 31 March 2007 to £5.4m as at 31 March 2008. The balances on both the Housing Repairs Fund and the Housing Major Repairs Reserve are expected to increase over the next year, from £3.09m to £3.13m and from £2.94m to £3.36m respectively. Overall the financial standing of the HRA and its reserves going into 2007/08 remain healthy.
42. **The conclusion is that the reserves of the Council are adequate to cope with the financial risks the Council faces in 2007/08 but that spending needs to be kept under review and savings made in the medium term.**

Report on the Council's Prudential Indicators for 2007/08 to 2009/10 and the Treasury Management Strategy for 2007/08

Recommendations;

1. The Council is recommended to adopt the prudential indicators and limits for 2007/08 to 2009/10 contained within the report. The main indicators are summarised in the table below:

	2005/06 Actual	2006/07 Revised	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Capital Expenditure	£9.537 m	£15.480 m	£12.561 m	£9.835 m	£6.563 m
Capital financing requirement	-£0.784 m	-£0.784 m	-£0.784 m	-£0.784 m	-£0.784 m
Authorised limit for external debt	£5.0 m	£5.0 m	£5.0 m	£5.0 m	£5.0 m
Operational boundary for external debt	£0.5 m	£0.5 m	£0.5 m	£0.5 m	£0.5 m
Ratio of financing costs to net revenue stream – General Fund	-7.32 %	-8.51 %	-8.41 %	-7.30 %	-6.98 %
Ratio of financing costs to net revenue stream – HRA	-7.56 %	-8.79 %	-8.69 %	-7.54 %	-7.21 %
Incremental impact of capital investment decisions on the Band D Council Tax	N/a	£0.00	£0.00	£0.00	£0.00
Incremental impact of capital investment decisions on weekly housing rents levels	N/a	£0.43	£0.57	£0.28	£0.87

2. Members are recommended to approve the treasury management strategy for 2007/08. The treasury prudential indicators as set out in the tables below;

Exposure to fixed/variable interest rates	2007/08 Upper	2008/09 Upper	2009/10 Upper
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	30%	30%	30%

Maturity Structure of fixed interest rate borrowing						
	2007/08		2008/09		2009/10	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above	0%	0%	0%	0%	0%	0%
Maximum principal sums invested > 364 days	£20 m		£20 m		£20 m	
Investment returns to exceed the 7 day LIBID rate by;	0.10 %		0.15%		0.20%	

3. Members are recommended to approve an increase in maximum investment limits for high rated counterparties from £8m to £12m
4. Members are recommended to approve the investment strategy for 2007/08 contained in the treasury management strategy, and the detailed criteria included within it, specifically approving:
 - o The criteria for specified investments
 - o The criteria for non-specified investments

The Prudential Indicators 2007/08 – 2008/09

1. The Local Government Act 2003 required the Council to adopt the CIPFA Prudential Code and to produce prudential indicators. This report revises the indicators for 2006/07, 2007/08 and 2008/09, and introduces new indicators for 2009/10. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.
2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence, the treasury management strategy for 2007/08 and the treasury indicators form part of this report.

Capital Expenditure Plans

3. The first prudential indicators govern the Council's capital expenditure plans, its net borrowing position and its Capital Financing Requirement (CFR). The Council's capital expenditure plans are summarised below. Capital expenditure can be financed immediately (by resources such as contributions from revenue, capital receipts and capital grants), so that with no unfinanced expenditure there is no need to borrow.
4. A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government has the power to restrict the level of external debt undertaken by either all councils as a whole or of a specific council, although these powers have not yet been exercised.
5. The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.
6. **The Council is recommended to approve the following capital expenditure estimates as Prudential Indicators 2 and 3.**

Portfolio	2005/06 Actual £'000	2006/07 Revised Estimate £'000	2007/08 Original Estimate £'000	2008/09 Original Estimate £'000	2009/10 Original Estimate £'000
Finance & Performance Management	71	334	423	215	0
Leader of the Council	0	30	0	0	0
Customer Services, Media & IT	647	651	637	2,245	594
Community Wellbeing	0	0	0	0	0
Leisure	210	613	50	50	50
Environmental Protection	780	892	1,300	0	0
Civil Engineering & Maintenance	723	2,645	2,282	337	262
Housing GF	492	2,396	1,855	700	700
Total General Fund	2,923	7,561	6,547	3,547	1,606
HRA	6,560	7,869	6,204	6,238	4,907
Housing DLO	54	50	50	50	50
Total Housing Revenue Account	6,614	7,919	6,254	6,288	4,957
TOTAL	9,537	15,480	12,801	9,835	6,563

The Council's Capital Financing Requirement

7. The Council's Capital Financing Requirement (CFR) is the total capital expenditure which has not yet been financed from either revenue contributions or capital income. It is essentially a measure of the Council's underlying borrowing need; any unfinanced capital expenditure will increase the Council's CFR. Table 2 demonstrates that all projected capital expenditure over the current and the next three financial years is expected to be financed, and that the Council's CFR is expected to remain unchanged.
8. **Members are asked to agree that the Council has complied with the requirement of Prudential Indicator 1 by keeping net borrowing below the appropriate CFR in 2005/06, and that no difficulties are envisaged for the financial years 2006/07 to 2009/10.**
9. **Members are further asked to approve Prudential Indicators 4 and 5, the Capital Financing Requirement from 2005/06 to 2009/10, contained within Table 2**

General Fund	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
Capital Expenditure	2,923	7,561	6,547	3,547	1,606
Financed by:					
Capital receipts	2451	6,320	5,421	3,372	1,431
Capital grants	472	1,241	1,126	175	175
Revenue Contributions	0	0	0	0	0
Total Financed Expenditure	2,923	7,561	6,547	3,547	1,606
Net financing need for the year	0	0	0	0	0
Opening CFR	23,844	23,844	23,844	23,844	23,844
Net Financing Requirement arising during the year	0	0	0	0	0
Closing CFR	23,844	23,844	23,844	23,844	23,844
HRA	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
Capital Expenditure	6,614	7,919	6,254	6,288	4,957
Financed by:					
Capital receipts	1,667	672	0	0	0
Capital grants	255	30	30	30	30
Revenue Contributions	4,692	7,217	6,224	6,258	4,927
Total Financed Expenditure	6,614	7,919	6,254	6,288	4,957
Net financing need for the year	0	0	0	0	0
Opening CFR	- 24,628	- 24,628	- 24,628	- 24,628	- 24,628
Net Financing Requirement arising during the year	0	0	0	0	0
Closing CFR	- 24,628	- 24,628	- 24,628	- 24,628	- 24,628
General Fund CFR	23,844	23,844	23,844	23,844	23,844
HRA CFR	- 24,628	- 24,628	- 24,628	- 24,628	- 24,628
Total CFR	- 0.784	- 0.784	- 0.784	- 0.784	- 0.784

Limits to Borrowing Activity

10. Prudential Indicators 6, 7 and 8 are intended to ensure that the Council operates its external borrowing activities within well defined limits. The first two of these are:

- The Authorised Limit for External Debt. This represents a limit beyond which external debt is prohibited, and needs to be approved by full Council. It reflects the level of external debt which could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.
- The Operational Boundary for External Debt. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

11. The Council became debt-free on 29th March 2004, and intends to remain debt-free for the foreseeable future, meaning that the Authorised Limit is unlikely to be breached. The Head of Finance is able to confirm that the Council has remained within these two limits during the current year, and does not foresee any difficulty in continuing to do so.

12. **The Council is recommended to approve the Authorised Limit and Operational Boundary set out in Table 3 as Prudential Indicators 6 and 7.**

	2006/07 Revised £ m	2007/08 Estimate £ m	2008/09 Estimate £ m	2009/10 Estimate £ m
Authorised limit	5.0	5.0	5.0	5.0
Operational boundary	0.5	0.5	0.5	0.5

13. In order to comply with Prudential Indicator 8 the Council must ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2007/08 and next two financial years. This allows some flexibility for limited early borrowing for future years.

14. The Head of Finance confirms that the Council has complied with this prudential indicator throughout the current year and does not envisage difficulties for the foreseeable future. This view takes into account current commitments, existing plans, and the proposals contained within this budget report. The Council's net debt position as at 31 March 2006 and its estimated position as at 31 March 2007 is shown for information in Table 4.

	31 March 2006 Actual £'000	Rate %	31 March 2007 Estimate £'000	Rate %
External debt	0		0	
Less transferred debt	- 610	4.50	- 585	5.10
Total Net Debt	- 610		- 585	
Fixed Investments	-43,000	4.59	-53,000	5.40
Variable Investments	-1,516	4.50	-3,000	5.00
Total Investments	-44,516		-56,000	
Net Investments	-45,126		-56,585	

Affordability Prudential Indicators

15. The previous sections cover prudential indicators designed to examine capital expenditure and control of borrowing: prudential indicators in this section are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's financial affairs, and identify the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.
16. The estimates of financing costs include current commitments and the proposals in this budget report.
17. Prudential Indicators 9 and 10 are the actual and estimated ratios of financing costs to net revenue stream for the General Fund and Housing Revenue Accounts, and are shown in Table 5. As the Council is debt-free, these are based on investment income and are therefore negative.

	2005/06 Actual	2006/07 Revised Estimate	2007/08 Estimated Forecast	2008/09 Estimated Forecast	2009/10 Estimated Forecast
	%	%	%	%	%
General Fund	- 7.32	- 8.51	- 8.41	- 7.30	- 6.98
HRA	- 7.56	- 8.79	- 8.69	- 7.54	- 7.21

18. Prudential Indicator 11 concerns an estimate of the incremental impact of capital investment decisions on the Band D Council tax over the next three financial years, and is shown in Table 6. This indicator identifies the revenue costs associated with new schemes introduced to the capital programme recommended in this budget report, compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.
19. Prudential Indicator 12 examines estimates of the incremental impact of capital investment decisions on housing rent levels over the next three financial years. Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

	2006/07 Revised	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
	£	£	£	£
Band D Council Tax	0.00	0.00	0.00	0.00
Housing rents levels	0.43	0.57	0.28	0.87

20. It should be emphasised that these are theoretical, and do not imply an actual requirement to raise either Council tax (should this indicator rise above £0.00) or housing rent levels. Any move to raise housing rent levels will be constrained by the rent restructuring controls.

Treasury Management Strategy 2007/08 – 2009/10

21. The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators considered so far relate to the affordability and impact of capital expenditure decisions and govern the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures that the Council meets the "balanced budget" requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included within this strategy which require approval.
22. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 22 April 2002, and as a result formulated a Treasury Management Policy Statement (approved by Cabinet on 18 October 2004). This adoption meets the requirements of the first of the treasury prudential indicators (Prudential Indicator 13).
23. The Council's Treasury Management policy requires an annual strategy to be reported to Council in advance of the first financial year to which it relates, outlining the expected treasury activity for the following three financial years. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury service. A further treasury report is produced within six months of the year-end to report on actual activity for the year.
24. This strategy covers:
 - The Council's debt and investment projections;
 - The expected movement in interest rates;
 - The Council's borrowing and investment strategies;
 - Treasury performance indicators;
 - Specific limits on treasury activities;

Debt and Investment Projections 2007/08 – 2009/10

25. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. Table 7 shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances, although as a matter of prudence it does not include an estimate for capital receipts from proposed land sales.
26. Although the Council is debt-free and expects to remain so for the foreseeable future, there is a reducing element of debt taken out on behalf of other local authorities. The underlying external debt has been paid in full; the authorities concerned are paying the Council their share of the debt plus interest in instalments. This is shown as negative debt, as it represents income to the Council.

Table 7: Treasury position as at 31 March, 2006/07 to 2009/10				
	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
External Debt				
External debt	0	0	0	0
Less transferred debt	- 585	- 559	- 534	- 508
Total debt at 31 March	- 585	- 559	- 534	- 508
Investments				
Investment portfolio	53,000	52,000	47,000	44,000
Funds held in short notice accounts	3,000	3,000	3,000	3,000
Total investments at 31 March	56,000	55,000	50,000	47,000
Investment change during the year	+11,484	- 1,000	-5,000	-3,000
Investment interest income	2,681	2,650	2,300	2,200

Economic Forecast

Table 8: Expected movements in interest rates (Source: Butlers)				
Rates shown are averages	Base Rate %	5-year Gilt %	20-yr Gilt %	50-yr Gilt %
2006/07	4.8	4.9	4.4	4.0
2007/08	5.1	4.9	4.6	4.0
2008/09	4.8	4.5	4.3	3.9
2009/10	4.5	4.5	4.3	3.9

27. Buoyant economic activity in 2006 and the strength of external cost pressures prompted a tightening of monetary policy as the Monetary Policy Committee sought to contain a rise in inflation to the upper levels of the Government's target range.
28. The continued risks of a revival in inflation pressures via increased pay settlements, buoyant consumer spending and rising unit costs suggest the Bank of England will maintain a cautious policy approach to rates through much of 2007.
29. Higher rates in the UK, US and Euro-zone will eventually lead to a deceleration in economic activity and a diminution of inflation pressures. This will leave some scope for a modest reduction in short-term interest rates, a trend that will be followed by longer term fixed rates.

Borrowing Strategy 2007/08 – 2009/10

30. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.
31. Long-term fixed interest rates are expected to rise modestly. Until recently, the Bank of England Base Rate, on which all major UK financial institutions base their own rates, was expected to peak at 5.25%. However, the unexpected rise in base rate to 5.25% in January 2007 has prompted speculation that the final peak will be 5.50%. The Head of Finance, under delegated powers, will consider interest rate forecasts available from professional advisors and their associated risks, and will take the most appropriate form of investment depending on the prevailing interest rates at the time.

Investment Counterparty and Liquidity Framework

32. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

33. The Head of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the Council will invest with rather than defining what form its investments will take.

- **Banks** – the Council will invest in banks which have the following Fitch or equivalent ratings as a minimum:
 - **Short Term** – F1 (minimum of F1+ for total investments between £5m to £8m)
 - **Long Term** – A (minimum of AA- for total investments between £5m and £8m)
 - **Individual / Financial Strength** – C (Fitch / Moody's only)
 - **Support** – 3 (Fitch only)
- **Building Societies** – Listed in the top 30 according to ranking by total capitalisation, with some further restrictions;
 - The society must have a minimum of £500m in capital assets
 - A maximum of £5m may be invested in building societies ranked in the top ten
 - Societies ranked 11 to 20 may hold a maximum total investment of £3m
 - Societies ranked 21 to 30 may hold a maximum total investment of £2m
 - Societies with no credit rating are subject to a maximum investment term of;
 - i. Nine months (capital assets of at least £1,000m)
 - ii. Six months (capital assets between £500m and £1,000m)
- **Money Market Funds** – AAA
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils etc**

With the current increase in investment portfolio balances and the proposed land sales planned for 2007/08, the Head of Finance feels that the maximum investment limit for higher rated counterparties should be raised from £8m to £12m to allow sufficient flexibility in placing investments.

34. **Members are recommended to increase the maximum investment limit with higher rated counterparties from £8m to £12m.**

35. The time limits for institutions on the Council's counterparty list are five years, unless other restrictions are specified above (these will cover both specified and non-specified Investments). Investments for terms exceeding 364 days are subject to approval by the Head of Finance. The proposed criteria for specified and non-specified investments are shown in paragraphs 51 to 58 for approval.

36. The use of longer term instruments (one year or greater from inception to repayment) will fall into the category of non-specified investments. These instruments will be used only where the Council's liquidity requirements are safeguarded. This usage is limited by Prudential Indicator 17 at paragraph 43 below.

Treasury Management Prudential Indicators and Limits on Activity

37. There are four more treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:
- Upper limits on fixed interest rate exposure (Prudential Indicator 14). This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments
 - Upper limits on variable interest rate exposure (Prudential Indicator 15). Similar to the previous indicator, this covers a maximum limit on variable interest rates.
 - Maturity structures of borrowing (Prudential Indicator 16). These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing; upper and lower limits of each category are required.
 - Total principal funds invested for greater than 364 days (Prudential Indicator 17). These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.
38. Following the Council's early repayment of its external debt on 29 March 2004 and the subsequent review of its treasury management operation, the decision was taken to extend the Council's maximum investment term from 364 days to five years. This decision was ratified by Council on 14 December 2004, and members were asked at the same time to change Indicator 17 from zero to £10,000,000, to enable a maximum amount of £10 m to be placed in investments with terms of one to five years.
39. The Treasury Strategy Report presented to Council on 21 February 2006 increased the maximum limit of investments made for terms exceeding 364 days from £10 m to £15 m, to allow some flexibility in the light of the expected capital receipt from the sale of the Parade Ground at North Weald Airfield.
40. Since this indicator was changed, the Council's treasury service has made two investments of £5m for terms of greater than 364 days. The rate obtained for the first deal was 0.14% higher than the best rates on offer at the time – an additional £7,000 interest over one year – and 0.29% higher than the current rate offered for investments of 364 day terms. The second such deal, also for £5m, improved on the rate offered that day for deals of 364 day terms by 0.55 %, representing an interest gain of £27,500 over the course of one year.
41. With the possibility of two further land sales in the coming financial year, the Head of Finance holds the opinion that it would be an advantage to increase the maximum total investment allowed for terms exceeding 364 days. This would allow the possibility of swift action to take advantage of good deals, without the necessity for a lengthy delay while the necessary approval is sought.
42. With this in mind, the Head of Finance recommends that Prudential Indicator 17 (the maximum cumulative limit of investments made for terms over 364 days) be increased to £20m, to allow for further flexibility in future investment strategy.

43. **Members are recommended to approve the contents of Tables 9 and 10 as Prudential Indicators 14, 15, 16 and 17, representing an increase in Prudential Indicator 17 from the current limit of £15m to £20m.**

Table 9: Exposure to fixed/variable interest rates (Prudential Indicators 14 and 15)			
	2007/08 Upper	2008/09 Upper	2009/10 Upper
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	30%	30%	30%

Table 10: Maturity structure of fixed interest rate borrowing and limits on longer term investments (Prudential Indicators 16 and 17)						
	2007/08		2008/09		2009/10	
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	100%	0%	0%	0%	0%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	0%	0%	0%	0%	0%
10 years and above	0%	0%	0%	0%	0%	0%
Maximum principal sums invested > 364 days	£20 m		£20 m		£20 m	

Performance Indicators

44. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. As a debt free council with no externally managed funds, the only effective performance indicator that can be set is an achievement margin in excess of the 7 day LIBID rate, the London Interbank Bid rate, which is the accepted benchmark for local authority treasury operations. The results of these indicators will be reported in the Treasury Annual Report for 2006/07.

45. **Members are recommended to approve the local performance indicators set out in Table 11.**

Table 11: Performance indicator for the Council's Treasury operations			
	2007/08 %	2008/09 %	2009/10 %
Returns to exceed the 7 Day LIBID rate by:	0.10	0.15	0.20

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

46. The Office of the Deputy Prime Minister (now DCLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below.
47. The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 18 April 2002 and will continue to apply its principles to all investment activity. In accordance with the Code, the Head of Finance has produced treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.
48. The key requirements of both the Code and the investment guidance are to set an annual investment strategy as part of its annual treasury strategy for the following year, to be approved by full Council and covering the identification and approval of:
- The strategy guidelines for decision making on investments, particularly non-specified investments.
 - The principles to be used to determine the maximum periods for which funds can be committed.
 - Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
 - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.
49. The investment policy proposed for the Council for the forthcoming financial year is based on Butler's forecast of economic conditions. Expectations on shorter-term interest rates, on which investment decisions are based, were expected to peak at 5.25% in early 2007. However, the unexpected rise in the Base Rate to 5.25% in January 2007 – a month before the quarterly Inflation Bulletin which often prompts such rises – has led to speculation that the rate may peak at 5.50%, and market advisors are keenly awaiting the minutes of the January rate setting meeting to assess the Monetary Policy Committee's strength of feeling on this issue.
50. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise. The Head of Finance, under delegated powers, will undertake the most appropriate form of investments depending on liquidity requirements and the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

Specified and Non-Specified Investments

51. Specified investments are sterling investments with original investment terms of not more than one year, or those which are agreed for a longer period where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These include investments with:
- I The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
 - II A local authority, parish council or community council.
 - III Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
 - IV A financial body such as a bank or building society that has been awarded a high credit rating by a credit rating agency.
52. The Council proposes to invest in specified investments, with further restrictions related to credit ratings.
53. **Members are requested to confirm their approval of the following specified investments for this council:**
- **All Category I investments;**
 - **All Category II investments;**
 - **For Category III - money market funds rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.**
 - **For Category IV - bodies with a minimum rating of A-1, P-1 and F1 as rated by Standard and Poor's, Moody's or Fitch rating agencies respectively.**
- 54 Non-specified investments are any other type of investment (i.e. not defined as specified above). These would include sterling investments with:
- I. Securities which are guaranteed by the UK Government (such as supranational bonds). These are fixed income bonds although the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
 - II. Gilt edged securities with a maturity of greater than one year.
 - III. Institutions not meeting the basic security requirements under the specified investments.
 - IV. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of greater than one year.
- 55 As a result of the review of the Treasury Management function in 2004, it was agreed that the Council would extend its approved counterparty listing to include any unrated building society which met the following criteria:
- Listed in the top thirty building societies by capitalisation size, as rated by Butler's Building Society Guide (updated annually). This Guide is regarded as the definitive guide to building society rankings by treasury advisors, and
 - A minimum capitalisation limit of £500m.

- 56 In order to protect the Council further, it was agreed that there should be restrictions on the maximum term and amount of investment in unrated building societies;
- A maximum of £5m may be invested in any of the top ten building societies
 - Societies ranked 11th to 20th should have a maximum investment limit of £3m
 - Approved societies ranked between 21st and 30th should have a maximum investment limit of £2m
 - Investments in building societies with no credit rating and with assets in excess of £1 billion should be for a maximum term of nine months
 - Investments in building societies with no credit ratings and with assets between £500m and £1bn should be for a maximum term of six months
 - Investments in any financial body with a credit rating are subject to the following limits;
 - £5m total cumulative investment in bodies with minimum credit ratings of F1 short term) or equivalent (P1, A1) C (individual rating) 3 (support rating) C (financial strength) and a long term rating of A- or equivalent.
 - £8 m total cumulative investment in bodies with minimum credit ratings of F1+ (short term) or equivalent, and a long-term rating of AA- or equivalent.
- 57 The same review concluded that the rising level of investments offered some scope for a limited proportion of funds to be invested for periods longer than one year. It was felt that five years was a reasonable maximum term. On the advice of Butlers, any investment of a term of more than one year would be made only with a counterparty possessing a minimum short term credit rating of A- (Fitch), A3 (Moody's) and A (Standard & Poors).
- 58 **Members are requested to confirm that, for the time being, it is intended that non-specified investments will not form part of the Council's investment portfolio, with the exception of;**
- **Building societies meeting the criteria in Paragraph 55 above (subject to the restrictions laid down in Paragraph 56) and**
 - **A maximum of £15,000,000 invested for terms exceeding one year, subject to the credit rating criteria in Paragraph 57 and a maximum term of five years.**
- 59 The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Head of Finance and new counterparties which meet the criteria will be added to the list. Existing investments with the downgraded counterparty will be allowed to run to maturity, unless there is reason to believe that an attempt should be made to retrieve the funds beforehand.
- 60 The Council is aware that external fund managers are potentially able to achieve higher returns on an investment portfolio than in-house staff with limited time and specialist financial expertise. However, these potential high returns are offset by the managers' fees. The Council has considered the net returns available through the use of external managers, and has decided to retain its policy of retaining the entire portfolio in-house. This policy will be kept under review each year.

Table 12: Returns achieved by the in-house Treasury team compared to the industry average net returns for external fund management teams			
	2003/04	2004/05	2005/06
	%	%	%
In-house team	3.64%	4.67%	4.73%
External management (net of charges)	3.05%	4.69%	4.60%
Difference	0.59%	(0.02%)	0.13%

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 1 NOVEMBER 2006
(9.00 - 10.15 AM)**

Present: P Haywood (Joint Chief Executive) (Chairman) J Scott (Joint Chief Executive), J Akerman (Chief Internal Auditor), C O'Boyle (Head of Legal, Administration and Estates), R Palmer (Head of Finance) and I Willett (Head of Research and Democratic Services)

**Apologies for
Absence:**

Place: P. Haywood's Office, Civic Offices, Epping

66. MINUTES OF THE PREVIOUS MEETING - 4.10.06

Agreed.

67. MATTERS ARISING

None for report.

68. SPRINGFIELDS, WALTHAM ABBEY - IMPROVEMENT/REPAIR PROJECT

Restricted under exempt information paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended.

69. RISK MANAGEMENT - UPDATE

Noted that a risk matrix and scores had now been completed.

Noted that a report would be prepared for the December Cabinet meeting.

Agreed that the draft report when prepared should be submitted for comments to the Management Board.

ACTION:

R Palmer to pursue.

70. AUDIT AND GOVERNANCE COMMITTEE

Draft report agreed subject to clarification of Paragraph 4(k).

ACTION:

J Akerman to pursue.

71. WORKING GROUP ON CONTRACT STANDING ORDERS ETC

Minutes of the last meeting of the Working Group dated 16 October 2006 received.

Agreed that in relation to the Essex Procurement Hub the Working Group should look at the possibility of stipulating in Contract Standing Orders that there would be an obligation to use the procurement hub wherever possible.

Agreed that this should be based on the Framework Agreement with Essex County Council.

Agreed that in the event that the Essex Procurement Hub was not the appropriate method, Contract Standing Orders could be then used for more traditional quotation/tendering procedures.

ACTION:

I Willett to report back to the Working Group.

72. STANDARDS COMMITTEE

(a) Membership Vacancy

Noted that there was a possibility of a vacancy occurring in the new year in one of the independent seats on the Standards Committee.

(b) Zurich Municipal - Policy for providing cover in respect of Members investigated by the Standards Board for England or the Standards Committee

Noted that a draft report was being prepared for the Constitutional Affairs Standing Scrutiny Panel and the Cabinet in December with a view to purchasing additional insurance cover from Zurich to cover investigations, adjudications and appeals in connection with the Code of Conduct.

Agreed that, in view of the cost of the additional premium, an option be included in the Cabinet report whereby the appropriate fee per member be held back and paid out of resources set aside for basic allowance.

(c) Outstanding Cases

Noted that two reports on local investigations into complaints against Councillors had now been issued.

ACTION:

I Willett to pursue.

73. DATE FOR NEXT MEETING

20 December 2006 at 9.00 a.m. before Management Board.

**EPPING FOREST DISTRICT COUNCIL
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 20 DECEMBER 2006
(9.00 - 10.05 AM)**

Present: P Haywood (Joint Chief Executive) (Chairman) J Akerman (Chief Internal Auditor), C O'Boyle (Head of Legal, Administration and Estates), R Palmer (Head of Finance), J Scott (Joint Chief Executive) and I Willett (Head of Research and Democratic Services)

**Apologies for
Absence:**

Place: P. Haywood's Office, Civic Offices, Epping

74. MINUTES OF THE PREVIOUS MEETING - 1.11.06

Agreed.

75. MATTERS ARISING

None for report.

76. DECLARATIONS OF INTEREST

I Willett declared an interest in relation to any work to be carried out by the consultant mentioned under minute 77 below in connection with Springfields, Waltham Abbey as his Council garage may be dealt with by that company.

77. SPRINGFIELDS, WALTHAM ABBEY - IMPROVEMENT/REPAIR PROJECT

Restricted under exempt information paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

78. AUDIT AND GOVERNANCE COMMITTEE

Noted that the Audit and Governance Committee had now been approved by the Cabinet on 18 December 2006 and would go forward to full Council in February 2007.

Noted that a sum of £6,000 had been specified as costs accruing from the establishment of this new Committee.

Agreed that these costs should be clarified for the future and if necessary the cost of training members of the new Committee should be met from the Corporate Training Programme Budget.

ACTION:

J Akerman to pursue.

79. REVIEW OF CONTRACT STANDING ORDERS, FINANCIAL REGULATIONS AND DELEGATIONS TO OFFICERS

Noted that a final draft of the new Contract Standing Orders had now been prepared and will be considered by the Working Party at a meeting early in the New Year.

Noted that work on financial regulations was still proceeding and that it was hoped that this would be completed in time for the January meeting of the Working Party.

Noted that the review of delegated authorities had now been finalised and that the number of amendments had been fairly restricted.

ACTION:

I Willett to report back on behalf of the Working Party once the outstanding work had been completed.

80. CORPORATE PROCUREMENT STRATEGY

Noted that concern had been expressed in some service areas about the continued use of paper orders in preference to the market place system.

Agreed that the matters should be raised at the next SMT meeting in January 2007 and that all use of paper orders should come to an end on 12 January 2007 with no new paper orders being printed and those existing stocks being passed back to Audit.

Noted that £400 orders had been raised so far since the scheme was inaugurated in November 2006.

Agreed that special consideration needed to be given to the Works Unit to ensure that they receive adequate training in the market place system and that in the forthcoming reorganisation of the Unit the need for ICT expertise in relation to procurement needed to be incorporated.

Noted that the consultant from EGS will be forwarding recommendations regarding the market place system when the current round of training had been completed.

81. STANDARDS COMMITTEE

(a) Independent Member – Vacancy

Noted that the Council on 19 December 2006 had appointed a panel of members who would interview and make recommendations to the Council on a preferred candidate.

(b) Adjudications on Complaints

Noted that one complaint had been concluded with a finding of no breach of the Code.

Noted that a further case was due to be reviewed in January 2007.

82. DATES FOR FUTURE MEETINGS

Agreed that the next meeting be held on 21 February 2007 at 9.00 a.m. in P Haywood's office.

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