

# Committee Agenda



**Webcast Meeting**



**Epping Forest  
District Council**

## ***Finance and Performance Management Cabinet Committee Monday, 5th October, 2009***

**Place:** Civic Offices, High Street, Epping

**Room:** Committee Room 1

**Time:** 6.30 pm

**Democratic Services Officer:** Gary Woodhall, The Office of the Chief Executive  
Tel: 01992 564470  
Email: gwoodhall@eppingforestdc.gov.uk

### **Members:**

Councillors C Whitbread (Chairman), R Bassett, Mrs D Collins, Mrs M Sartin, D Stallan and Ms S Stavrou

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

### **1. WEBCASTING INTRODUCTION**

The Chairman will read the following announcement:

“I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in the possibility that your image will become part of the broadcast.

You should be aware that this may infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit”

### **2. APOLOGIES FOR ABSENCE**

### **3. DECLARATIONS OF INTEREST**

(Assistant to the Chief Executive) To declare interests in any item on this agenda.

**4. MINUTES**

To confirm the minutes of the last meeting of the Committee held on 15 June 2009 (previously circulated).

**5. 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.

**6. CORPORATE RISK REGISTER (Pages 5 - 8)**

(Director of Finance & ICT) To consider the attached report (FPM-0006-2009/10).

**7. SUNDRY INCOME & DEBT POLICY (Pages 9 - 28)**

(Director of Finance & ICT) To consider the attached report (FPM-007-2009/10).

**8. QUARTERLY FINANCIAL MONITORING APRIL - JUNE 2009 (Pages 29 - 52)**

(Director of Finance & ICT) To consider the attached report (FPM-008-2009/10).

**9. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2008/09 (Pages 53 - 72)**

(Director of Finance & ICT) To consider the attached report (FPM-009-2009/10).

**10. FINANCIAL ISSUES PAPER (Pages 73 - 84)**

(Director of Finance & ICT) To consider the attached report (FPM-010-2009/10).

**11. 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):

<b>Agenda Item No</b>	<b>Subject</b>	<b>Exempt Information Paragraph Number</b>
Nil	Nil	Nil

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.

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



**Epping Forest  
District Council**

**Report Reference: FPM-006-2009/10.**

**Date of meeting: 5 October 2009.**

**Portfolio: Performance Management.**

**Subject: Corporate Risk Register.**

**Responsible Officer: Bob Palmer (01992 564279).**

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

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### **Recommendations/Decisions Required:**

- (1) To confirm the scoring of the two new risks and the change to the scoring of an existing risk; and**
- (2) To agree the addition of the two new risks to the Corporate Risk Register.**

### **Executive Summary:**

The last meeting of this Committee on 15 June 2009 received an update to the Corporate Risk Register. As part of the debate on the Risk Register, Members requested the addition of a new risk covering the provision of pitches within the District for gypsies and travellers.

In addition to this the Risk Management Group (RMG) felt the insertion of a new risk covering the threat of a reduction in the Council's grant support was appropriate.

### **Reasons for Proposed Decision:**

It is essential that the Corporate Risk Register is regularly reviewed and kept upto date. The decisions are a necessary part of this well-established process.

### **Other Options for Action:**

Members may not agree with the suggested scores and could ask for the risks to be rated differently. Members may not agree with the proposed action plans and may consider alternative actions to be necessary.

### **Report:**

1. At the meeting of this Committee on 15 June 2009 an updated version of the Corporate Risk Register was considered and approved. One of the issues considered by the Committee was whether there were any new risks that were not on the Corporate Risk Register. Members suggested that an additional risk regarding the provision of pitches within the district for gypsies and travellers should be considered by officers and brought back to this meeting for consideration.

2. The risk around the provision of pitches had been included in the Planning Service Risk Register for sometime and was being actively monitored by both the senior management in Planning and the Corporate Executive Forum. The wording used on the Service Risk Register was considered and amended by the RMG on 1 September. This new risk is shown

as risk number 29 on Appendix 1, with the proposed action plan on Appendix 2. An action plan is necessary as the proposed score for the risk is B2 (high likelihood, critical impact).

3. At their meeting on 1 September the RMG considered the recent debate on the state of the public finances and the possibility of substantial reductions in grant funding for local authorities in the next Comprehensive Spending Review. This risk is shown as risk number 30 on Appendix 1, with the proposed action plan on Appendix 2. An action plan is necessary as the proposed score for the risk is B2 (high likelihood, critical impact).

4. The RMG also considered the current scoring of the other risks on the register and felt that most were correct. However, it was felt that the likelihood given to risk 25 “Management capacity in Planning” should be reduced from C to D (significant to low). This risk was placed on the register due to concerns about the Planning and Economic Directorate having only one assistant director in post instead of three. These concerns have been reduced by the filling of these vacancies, although as gaps still remain in the overall structure it was felt that the risk should remain above the tolerance line and continue to be monitored.

5. On 9 September the Corporate Governance Group (CGG) considered the recommendations from the RMG and agreed the two new risks and their related action plans. The Corporate Governance Group also agreed with the proposed change to the scoring of risk 25.

6. The descriptions of the new risks are attached as Appendix 1 and the proposed action plans for the management of the risks as Appendix 2. Members are asked to confirm both the scoring of the risks and that the details and action plans set out in the appendices should be included in the Corporate Risk Register.

**Resource Implications:**

No additional resource requirements.

**Legal and Governance Implications:**

No legal implications. The Corporate Risk Register is an important part of the Council’s overall governance arrangements and that is why this Committee considers it on a regular basis.

**Safer, Cleaner, Greener Implications:**

None.

**Consultation Undertaken:**

The Corporate Governance Group approved the proposed additions.

**Background Papers:**

None.

**Impact Assessments:**

No equalities impacts.

If the Corporate Risk Register was not regularly reviewed and updated a risk that threatened the achievement of corporate objectives might either not be managed or be managed inappropriately.

Details of Additional Risks

No	Rating		Short name	Vulnerability	Trigger	Consequence
29	B2	*	Gypsy and Traveller Provision	<p>a) This is a very sensitive issue and one that involves a number of stakeholders. Whatever ultimate outcomes are captured in the Development Plan Document, it is unlikely that all stakeholders will be satisfied.</p> <p>b) The area attracts gypsies and travellers and an accusation may arise that the Council has not provided adequate/sufficient pitches.</p>	<p>Unhappy stakeholder issues possible legal challenge to Development Plan Document.</p> <p>More gypsies and travellers than can be accommodated on official sites attempt to stay in the district.</p>	<ul style="list-style-type: none"> <li>• Possible direct government intervention, with loss of local democratic control and control over costs.</li> <li>• Resource intensive legal process</li> <li>• Key performance indicators effected</li> <li>• Reputation damaged</li> </ul> <ul style="list-style-type: none"> <li>• Unofficial sites are established</li> <li>• Complaints from public/landowners</li> <li>• Possible enforcement action</li> <li>• Enforcement action made more difficult</li> </ul>
30	B2	*	Reduction in Government Grant	<p>More than half (54%) of the Council's General Fund net spend is financed by either Revenue Support Grant or re-distributed NNDR.</p> <p>The overall public finances are in a poor state and beyond the current Comprehensive Spending Review (CSR) there may be substantial cuts in funding for local authorities.</p>	Next CSR 2011/12 to 2013/14 reduces central funding support to local authorities.	<ul style="list-style-type: none"> <li>• Loss of revenue</li> <li>• Increase Council Tax</li> <li>• Reduction in number and level of services</li> <li>• Increase in charges</li> </ul>

Action Plans for Additional Risks

<b>Risk No.</b>	<b>Existing controls/actions to address risk</b>	<b>Effectiveness of controls/actions</b>	<b>Required further management action</b>	<b>Responsibility for action</b>	<b>Critical success factors and measures</b>	<b>Review frequency</b>	<b>Key date</b>
29	This risk has been included on the Planning Service Risk Register for sometime. The risk has been managed through the Local Development Framework (LDF) Cabinet Committee and treated as a priority within the service.	A lot of work has already been completed. However, due to an unprecedented public response the consultation deadline has been revised. The Government Office for the Eastern Region has been kept informed.	Careful monitoring of progress and resources.  Regular reporting to the LDF Cabinet Committee.	Leader of Council  Director of Planning & Economic Development	Deadlines achieved. No direct government intervention and no sustained legal challenge.  No unofficial sites established.	Weekly	None
30	The Medium Term Financial Strategy is updated each year to identify any need for savings.	To date savings targets have been achieved. However, the level of savings required is likely to increase dramatically.	As part of the 2009/10 budget process identify areas for review to achieve savings.	Leader of Council  Chief Executive	Savings targets achieved with expenditure reductions over the medium term as part of a structured plan.	Quarterly	None



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



**Epping Forest  
District Council**

**Report reference: FPM-007-2009/10**

**Date of meeting: 5 October 2009**

**Portfolio: Finance and Economic Development**

**Subject: Sundry Income and Debt Policy.**

**Responsible Officer: Edward Higgins (01992 564606)**

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

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### **Recommendations:**

**To consider and adopt the updated Sundry Income and Debt Policy.**

### **Executive Summary:**

This committee previously reviewed the Sundry Debtor and Debt Policy on 17 March 2008 and the policy is subject to an annual review.

### **Report:**

1. The policy should be reviewed and updated on an annual basis and so is presented here for members consideration. The policy has been updated to reflect the comments received from Finance, Legal and Internal Audit and the experience of the policies following the last review.
2. Following an Internal Audit report on sundry debtors in March 2009 it was recommended that the Write Off Policy for Sundry Debts be amended to reflect the review of Financial Regulations giving the Director of Finance delegated authority to write off debts up to £2,500.
3. Appendix B – Recovery Flow Chart has been amended to illustrate that Reminder 3 is sent before the decision to refer to Legal or debt agency.
4. Appendix C - Circumstances where the debt may be non-recoverable includes additional item h) Debt Relief Order which came into effect on 6 April 2009.

### **Resource implications:**

No additional resource required.

### **Legal and Governance Implications:**

No legal implications.

### **Safer, Cleaner, Greener Implications:**

None.

**Consultation undertaken:**

Accountancy, Audit and Legal services have been involved in this process.

**Background papers:**

None.

**Impact Assessments:**

No equality impacts.

If the Sundry Debtor Policy was not reviewed annually then the Council might not achieve the desired collection rate.



**Epping Forest  
District Council**

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**Sundry Income & Debt Policy**

Version 3 – October 2009

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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 active 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 and report on performance to the Finance & Performance Management Cabinet Committee.
- 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 as they are subject to their own legislation / regulations:
- a) Council Tax
  - b) National Non Domestic Rates
  - c) Housing Rents
  - d) Housing and Council Tax Benefits Overpayments
  - e) Parking penalties.

## 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 Directors 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 Director of Finance & ICT 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 Services should ensure that the names and addresses of the debtors are up to date and correct.
- 5.4 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.
- 5.5 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.

- 5.6 For periodic charges, a direct debit should, wherever possible, be set up in advance of the service being provided.
- 5.7 An invoice must not be raised to provide a hidden subsidy.
- 5.8 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.**

<b>Value</b>	<b>Terms (from date of invoice)</b>
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 In order for a debtor to receive more than 3 months credit, a detailed income and expenditure sheet should be completed for their case to be considered. The Senior Finance Officer should be consulted on all these cases.

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 Director of Finance & ICT 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 when payment is subsequently received. 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 if the debt is being dealt with by Legal, or to Finance 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 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 remains 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.
- 10.7 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.
- 10.8 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.
- 10.9 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.
- 10.10 Recovery action can be halted at any part of the process if the debtor enters into payment terms to clear the debt by instalments.
- 10.11 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 Director.
- 10.12 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 30 days of the dispute being registered.
- 11.2 The Senior Finance Officer will monitor accounts on hold on a quarterly basis

## 12 **Litigation**

- 12.1 All debts outstanding above £100 should be referred to Legal 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 Director 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 All write offs need to adhere to the Council's Write Off Policy for Sundry Debts. This can be seen at Appendix C.
- 14.2 The following officers have delegated powers to write off bad debts as follows:
  - a) Director of Finance & ICT for debts under £2,500
  - b) Finance & Economic Development Portfolio Holder for debts of £2,500 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 Director of Finance & ICT 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) Level of irrecoverable debt provision
- c) Number of days debts are outstanding – “debtor days” for invoices raised within the preceding 12 months
- d) Number of days debts are outstanding – “debtor days” for all invoices
- e) Number and value of disputed accounts and those where action is on hold
- f) Percentage of debt by number and value collected in 42 days
- g) Percentage of debt by number and value collected in 60 days
- h) Aged debt analysis by value, and
- i) Analysis of write offs by income section and age

## 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 an annual 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 the debtor breaches the agreement they will receive one reminder letter. If a further breach of the agreement is then made, the agreement will be terminated and passed back to the service for them to instruct legal to take action (copy of the agreement should be forwarded to the service)
  - 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 (up to one month) 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 negotiate the arrangement and Finance will set up the arrangement. The arrangement will then be monitored by Finance and Legal will close their file. If the arrangement is breached after one reminder Finance will refer the debt back to Legal to re-open the file.
  - 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 must comply with any time limits imposed by Legal, as the matter will now be in the control of the Court and its timetable.

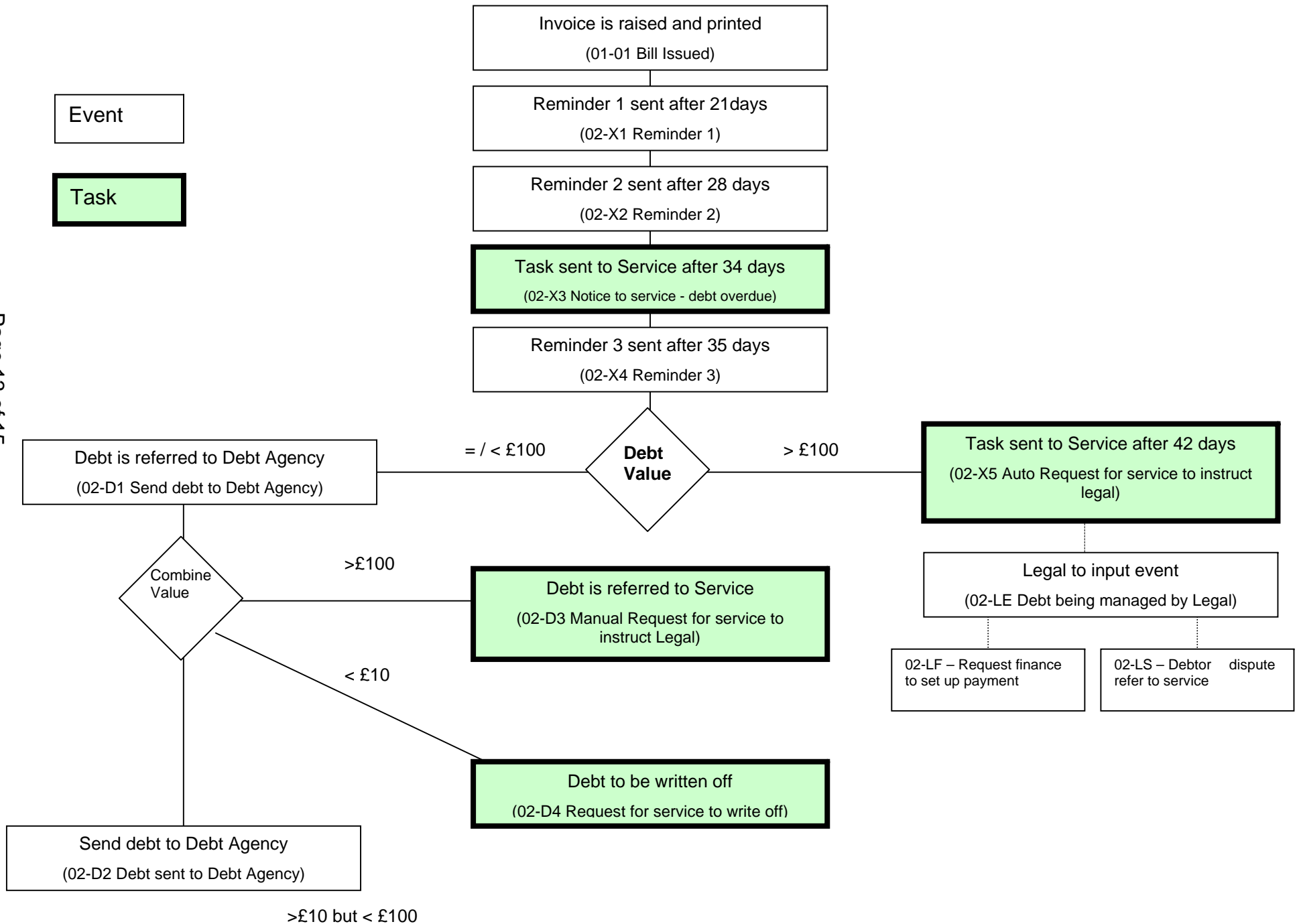
### **3 SERVICE RESPONSIBILITY**

3.1 In order for all parties to keep up to date with the latest developments services should arrange regular meetings with Legal and Finance.

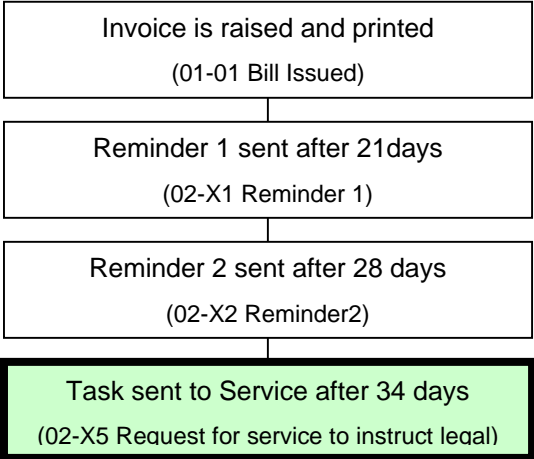
3.2 Services will receive the following monthly reports from Finance and Legal. It is the service responsibility to review these reports and to take action on all necessary debts.

- 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) Listing of cases currently being managed by Legal and where they are with each case
- e) Any other specific report to a client

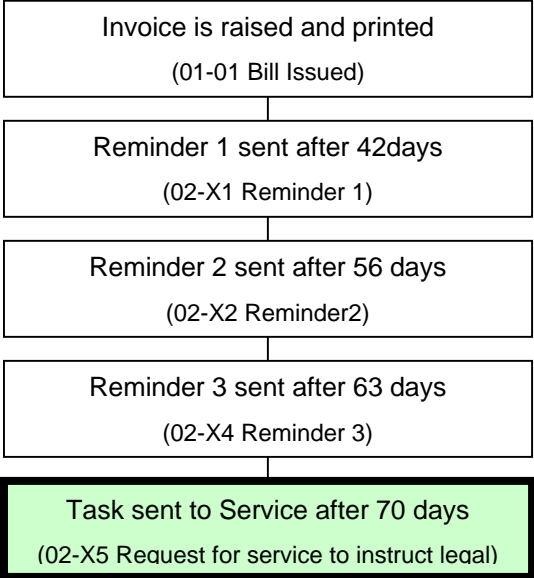
### Recovery DR = New Debt Recovery



**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 <sup>th</sup> 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

**1. General**

- 1.1 It is Epping Forest District Council's aim to collect all outstanding charges from debtors wherever possible, provided that it is cost effective. However, this may not be possible due to the circumstances of some cases, these are listed below.

**2. Purpose of this Policy**

- 2.1 To describe the circumstances and authorisations when debts are considered as non-recoverable.

**3. Types of Debts not covered by the Policy:**

- 3.1
- a) Council Tax;
  - b) National Non-Domestic Rates;
  - c) Housing Rents;
  - d) Housing and Council Tax Benefits Overpayments; and
  - e) Parking penalties

**4. Circumstances where the debt may be non-recoverable**

- 4.1
- a) Debtor has absconded and cannot be traced;
  - b) Debtor / company is insolvent i.e. Bankruptcy, Liquidation and Administrative Receivership cases;
  - c) Debtor deceased and there is no estate;
  - d) Debts where all or part has been remitted by the Magistrates Courts due to hardship;
  - e) Small debts under £10 and other small non-recurring debts which are uneconomical to collect;
  - f) Debts where a company has ceased to trade leaving no assets;
  - g) Debts that cannot be legally enforced.
  - h) Debt Relief Orders

- 4.2 In some cases further action may be required before the amount is written off, such as referring the debt to a Tracing Agency

**5. Write Off and Reporting**

5.1 Where any of the above criteria are satisfied then the balance outstanding will be considered for write off.

5.2 The service that raised the debt will need to request the write off, providing the following information and signed by the delegated person detailed on the authorised signatories list:

- a) Name of Debtor;
- b) Reason for the write off;
- c) Amount to be written off;
- d) Recovery history;
- e) Details of any traces / enquiries carried out; or
- f) Agreement by Legal Services
- g) Any other relevant information.

5.3 A write off list will be submitted and reconciled every 3 months by the Senior Finance Officer.

5.4 The Director of Finance & ICT has delegated power to write off individual debts of up to £2,500.

5.5 The Finance and Economic Development Portfolio Holder must approve the writing off of any debt in excess of £2,500.

5.6 Should a debtor be traced then the debt will be re-instated to enable recovery action to continue.

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



**Epping Forest  
District Council**

**Report reference: FPM-008-2009/10.**

**Date of meeting: 5 October 2009.**

**Portfolio: Finance & Economic Development.**

**Subject: Quarterly Financial Monitoring.**

**Responsible Officer: Peter Maddock (01992 564602).**

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

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### **Recommendations/Decisions Required:**

**That the revenue and capital financial monitoring report for the first quarter of 2009/10 be noted.**

### **Executive Summary:**

The report provides a comparison between the profiled budgets for the period ended 30 June 2009 and the actual expenditure or income as applicable.

### **Reasons for Proposed Decision:**

To note the first quarter financial monitoring report for 2009/10.

### **Other Options for Action:**

No other options available.

### **Report:**

1. The Panel has within its terms of reference to consider financial monitoring reports on key areas of income and expenditure. This is the first quarterly report for 2009/10 and covers the period from 1 April 2009 to 30 June 2009. The reports are presented based on which directorate is responsible for delivering the services to which the budgets relate.

2. Salaries monitoring data is presented as well as it represents a large proportion of the authorities expenditure and is an area where historically large under spends have been seen.

#### Revenue Budgets (Annex 1 – 9)

3. Comments are provided on the monitoring schedules but a few points are highlighted here as they are of particular significance. The salaries schedule (Annex 1) shows an underspend of £255,000 or 5.1%. The largest underspend is still on the Planning Services Directorate of £55,000 (9.5%) however appointments have recently been made to two posts that have been vacant for a while. The budget allowed for a pay award of 2.5% so roughly half of the 5.1% equates to underspends from vacancies. Having said that given the current economic climate and level of inflation it is unlikely any award will reach this level. Indeed an offer of 1.0% has now been made regarding the 2009/10 pay award. The revised estimates for 2009/10 will need to be adjusted to take this into account.

4. Building Control Income shows an under achievement of £29,000. The 2009/10 budget was set on the basis of recovering the costs incurred in 2009/10 plus the £15,000

deficit that existed at 31 March 2008. To this end fees were increased by 8% from 1 April 2009. Taking into account the 2008/09 outturn the deficit is now £25,000. Whilst it may still be possible to breakeven on this years expenditure it will be difficult to recover the additional £25,000 without increasing fees further or ceasing the use of consultants altogether. Clearly some action needs to be taken to bring the situation back into line and this is currently being considered.

5. Investment Interest levels in 2009/10 will now be lower than that in the Estimate unless rates rise fairly quickly, which looks unlikely. Toward the end of the quarter interest rates of around 1.2% were being achieved on 3 month lending. Now rates are nearer 0.9%. At the end of June interest of £452,000 had been earned, £83,000 down on expectations and the outturn could be as much as £400,000 down in a full year. Investigations are underway to see whether other types of investment could help make up some of the shortfall but options appear to be somewhat limited without taking on additional risk which in the current climate could not be recommended. The loss of interest will be shared between the General Fund and HRA. It is possible that the loss of HRA interest will be mitigated if Central Government agree to take into account the fall in interest rates since the issue of the 2009/10 Subsidy Determination. Local authorities including this Council have raised concerns regarding the assumed interest rate, (6.23%), used in the subsidy formula, the DCLG undertook to review this and indeed the mid-year claim quotes a figure of 2.00%, which is clearly far more reasonable. However no official notification has as yet been received to confirm that this rate will be used. On a brighter note the Council has received the first tranche of money back in relation to the Heritable Bank loans. A 15% return was due in July equating to £376,000 in the event £404,000 was received.

6. Development Control income at Month 3 is £19,000 above expectations. This is due to the fee of £49,000 relating to St Johns School. Even with this though Income is below the level at Quarter 1 in 2008/09. There has been a reduction in application levels compared to the first quarter of 2008/09, which suggests that fee levels might struggle to reach those estimated but income levels are also dependant on the size of applications rather than just the quantity. A few quite large applications could easily keep the income levels on track as the receipt of the St Johns School fee demonstrates.

7. Hackney Carriage licensing income continues to be buoyant and if anything has increased slightly on the same period last year.

8. Income from industrial estates is higher than expectations due to a number of rent reviews being backdated to April 2008.

9. The Housing Repairs Fund shows an underspend of £214,000 most of this is because there tends to be a higher proportion of repairs necessary during the second half of the financial year.

10. Payments to the Waste Management contractor are lagging behind expectations in that no payments relating to 2009/10 had been made by 30 June 2009. The April and May invoices have now been received and are expected to be paid shortly. Whilst this obviously shows as an underspend on Refuse Collection, Street Cleansing and Recycling it is also the main reason for the underspend on Special Services within the HRA.

11. The payments to Sports and Leisure Management Ltd are up to date as of 30 June 2009.

12. Where income budgets are not likely to be met, or under and overspends are expected this is noted on the schedules. Where no comment exists the actual outturn, at this point in time, is expected to be broadly in line with budgets.

### Capital Budgets (Annex 10-16)

13. Tables for capital expenditure monitoring purposes (annex 10 -16) are included for the three months to 30 June. The tables show the major schemes separately with other more minor items being summarised. There is a brief commentary on each item highlighting the scheme progress.

14. The full year budget for comparison purposes is the original budget updated for amounts brought forward from 2008/09 and any additional items agreed up to the last Cabinet. A full review of the Capital Programme is due to go to Cabinet on 12 October 2009.

### Major Capital Schemes (Annex 17)

15. Annex 17 looks at progress on those schemes with total budget provision in excess of £1m. The schedule monitors the schemes in total rather than by financial year. The total cost figures shown in columns six and seven therefore relate to two or more financial years. The original anticipated start dates where applicable are also included and where this was not achieved a revised or actual start date is given. There is also some commentary on the schemes for information.

### Conclusion

16. There is particular concern over the anticipated level of income from Building Control fees and Investment Interest. With regard to Building Control a decision needs to be made on how best to bring the account back into line. With regard to Investment Interest consideration needs to be given to how it might be possible to mitigate the effects, though it now looks as if the HRA element will be adjusted for within the subsidy system.

17. Income from Development Control and Land Charges will also need to be closely monitored as despite being in line with the estimates at Month 3, it will not take much to push income levels off track.

18. The panel is asked to note the position on both revenue and capital budgets as at Month 3 and the Major Capital Schemes monitoring schedule.

### **Resource Implications:**

Additional resource requirements may arise due to shortfalls in income. These issues will be kept under review and necessary adjustments to income levels will be included within the revised estimates.

### **Legal and Governance Implications:**

Reporting on variances between budgets and actual spend is recognised as good practice and is a key element of the Council's Governance Framework.

### **Safer, Cleaner, Greener Implications:**

The Council's budgets contain spending in relation to this initiative.

### **Consultations Undertaken:**

This report has been circulated to Portfolio-holders. An oral update will be provided to cover any additional comments or information received from Portfolio-holders.

### **Background Papers:**

Various budget variance working papers held in Accountancy.

**Impact Assessments:**

These reports are a key part in managing the financial risks faced by the Council. In the current climate the level of risk is increasing. Prompt reporting and the subsequent preparation of action plans in Cabinet reports should help mitigate these risks.



JUNE 2009 - SALARIES

<u>SERVICE</u>	<u>2009/10</u>			<u>2008/09</u>		
	<u>EXPENDITURE</u>	<u>BUDGET</u>	<u>VARIATION</u>	<u>EXPENDITURE</u>	<u>BUDGET</u>	<u>VARIATION</u>
	<u>TO 30/06/09</u>	<u>PROVISION</u>	<u>FROM BUDGET</u>	<u>TO 30/06/08</u>	<u>PROVISION</u>	<u>FROM BUDGET</u>
	<u>£000</u>	<u>(ORIGINAL)</u>	<u>(ORIGINAL)</u>		<u>(ORIGINAL)</u>	<u>(ORIGINAL)</u>
		<u>£000</u>	<u>%</u>	<u>£000</u>	<u>£000</u>	<u>%</u>
OFFICE OF THE CHIEF EXECUTIVE	207	219	-5.3	207	213	-2.8
DEPUTY CHIEF EXECUTIVE	343	364	-5.8	319	336	-5.1
CORPORATE SUPPORT SERVICE DIRECTORATE *	597	617	-3.2	573	580	-1.2
FINANCE & ICT DIRECTORATE *	952	960	-0.8	908	965	-5.9
HOUSING DIRECTORATE *	1,238	1,318	-6.1	1,237	1,273	-2.8
ENVIRONMENT & STREET SCENE DIRECTORATE *	901	961	-6.2	840	902	-6.9
PLANNING & ECONOMIC DEVELOPMENT DIRECTORATE *	523	578	-9.5	525	579	-9.3
<b>TOTAL</b>	<b>4,761</b>	<b>5,016</b>	<b>-5.1</b>	<b>4,609</b>	<b>4,848</b>	<b>-4.9</b>

\* Agency costs are included in the salaries expenditure.

Please note a vacancy allowance has been deducted in all service budget provisions.

The Budget Provision figures for 2009/10 include 3.36% inflation (2.6% Pay award & 0.76 Ers superannuation)

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
Major expenditure items:							
Grants to Voluntary Groups	195	57	57	30	0	0.00	As the result of a change in the method of accounting, grants committed in 2008/09 but not paid out are no longer carried forward as credits to expenditure but as an increase to the budget. Grants carried forward amounted to £64,412, of which £41,887 were outstanding at the end of Quarter 1. Grants approved in the current quarter amount to £52,000 of which £35,000 has been paid out.
Voluntary Sector Support	165	80	79	78	-1	-0.75	The figures include grants to the CAB and VAEF which are paid twice yearly in 50% instalments in April and October 2009
	360	137	136	108			

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major expenditure items:</u>							
Building Maintenance	348	34	29	35	-5	-14.71	The budget Profiling has been based on the expenditure pattern for the previous three years.
	348	34	29	35			

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major income items:</u>							
Hackney Carriages	148	37	49	47	12	32.02	There has been a continuing increase in the number of applications for private hire driver and vehicle licenses possibly due to rising levels of unemployment, and the switch to this occupation.
Licensing & Registrations	101	14	11	14	-3	-23.01	The first quarter of 2009/10 has seen a decrease in the number of premises license, temporary event and gambling applications received, possibly due to the current economic climate.
Local Land Charges	150	46	44	55	-2	-4.79	Despite reports of an improvement in the housing market, and a significant increase on the previous quarter, land charges income has not yet recovered to the levels achieved in the first quarter of 2008/09. The number of official searches for the first quarter stands at 363 which is 66% of the figures for the previous year. Personal searches are 490 which is 76% of the figures for the previous year. As a result of changes in Government legislation controlling local authority charges for property searches the official search fee was reduced from £120 to £100 on 6 April 2009. The new charging regime for personal searches has assisted in achieving a higher level of income from this source.

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major income items:</u>							
Industrial Estates	877	403	415	390	12	2.96	Included in this item is additional income from rent arrears for properties at Oakwood Hill Industrial Estate where leases have been reviewed and backdated to April 2008. There have been reductions in income at Brooker Road Industrial Estate resulting from reduced rent from advertising hoardings, and voids at Oakwood Hill Workshop units.
Land & Property	221	48	46	55	-2	-4.17	Commission from the David Lloyd Centre turnover is yet to be received for 2008/09, and will be included in Quarter 2.
	1,098	451	461	445			

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major expenditure items</u>							
Forward Planning	735	83	82	25	-1	-1.20	The majority of this budget relates to the Local Development Framework, work for which is on-going but has been delayed due to the extension of the public consultation exercise and uncertainties around the East of England plan. The major expenditure items are currently scheduled for the third and fourth quarters of the year but are under review.
	735	83	82	30			
<u>Major income items</u>							
Development Control	605	140	159	175	19	13.56	Development Control income for the first quarter includes application fee for St Johns School amounting to £48,530, despite this the level is still below that achieved in the first quarter of 2008/09. There has been a decrease in the number of applications received of approximately 20% compared to the same period last year.
Building Control Fee Earning	642	166	137	148	-29	-17.69	
	1,246	306	296	323			

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major expenditure items:</u>							
Information Technology	821	505	549	417	45	8.8	The majority of maintenance contracts payments are now made to suppliers annually in advance, as a result the expenditure in the first quarter is higher than in previous years and the budget has been reprofiled accordingly. There have been some increases in maintenance costs but these can be contained within the overall ICT budgets.
Telephones	192	56	58	29	2	3.6	Maintenance costs for the switchboard are now paid annually in advance, instead of on a quarterly basis, which accounts for the variance between 2008/09 and the current year.
Bank & Audit Charges	247	5	5	2	0	0.00	No significant expenditure occurs in either audit or bank charges until quarter 2
	1,261	566	613	276			
<u>Major income items:</u>							
Investment Income	2,142	535	452	872	-83	13.70	Investment interest has been lower than expected, due to the worsening market rates since the estimates were produced and the early return of a long term investment by the borrower. The estimated level of investment interest will not now be achieved.
	2,142	535	452	872			

	09/10 Full Year Budget	First Quarter			09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget	09/10 Actual	08/09 Actual	£'000	%	
	£'000	£'000	£'000	£'000			
<u>Major expenditure items:</u>							
Museum	90	30	35	40	5	17	The museum have been occupying space at the Royal Gunpowder Mills free of charge, however a charge for this is now made which has led to an overspend. This will be covered by underspends on other budgets within the Museum cost centre.



	09/10 Full Year Budget	First Quarter			09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget	09/10 Actual	08/09 Actual	£'000	%	
	£'000	£'000	£'000	£'000			
<u>Major expenditure items</u>							
Bed & Breakfast Accommodation	137	34	23	35	-11	-32.35	The underspend on expenditure and the reduction in income is due to a drop in placements in Bed & Breakfast Accommodation. The work of the Homelessness prevention team has been instrumental in achieving this.
<u>Major income items</u>							
Bed & Breakfast Accommodation	158	39	20	29	-19	-48.7	

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major expenditure items:</u>							
Refuse Collection	1,818	322	-67	-243	-389	-120.81	} There have been no payments made relating to 2009/10 as yet. The payments relating to January to March were not paid until well into 2009/10 and the charges made to the 2008/09 were higher than actually materialised. There are also still some unpaid 2008/09 commitments. Recycling shows a positive expenditure figure due to the purchase of sacks.
Street Cleansing	1,436	239	-41	-339	-280	-117.15	
Recycling	2,182	468	107	-74	-361	-77.14	
Highways General Fund	371	66	65	74	-1	-1.5	
Off Street Parking	553	202	195	158	-7	-3.47	} Payments to the Parking Contractor are up to date in 2009/10. In 2008/09 payments at this stage were a month behind.
On Street Parking	380	61	58	29	-3	-4.92	
Playgrounds & Open Spaces	230	58	57	47	-1	-1.72	
North Weald Centre	316	89	57	121	-32	-35.96	} The underspend relates to the maintenance of North Weald Airfield. The budgets has been profiled in line with previous years expenditure pattern however ther has been less expenditure in the first quarter in 2009/10 than during the first quarter of 2008/09.
	7,286	1,505	431	-227			

## DIRECTORATE FINANCIAL MONITORING - ENVIRONMENTAL AND STREET SCENE

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Contract cost Monitoring</u>							
Leisure Facilities:-							
Loughton Leisure Centre	27	2	2	5	0	0.00	}
Epping Sports Centre	292	24	24	14	0	0.00	}
Waltham Abbey Swimming Pool	460	38	38	36	0	0.00	}
Ongar Sports Centre	297	25	24	24	-1	-4.00	}
	1,076	89	88	79			
<u>Major income items:</u>							
Refuse Collection	151	11	-8	-28	-19	-172.73	Tipping away contributions relating to the final quarter of 2008/09 are still awaited. This was also the case last year.
Recycling	910	152	152	1	0	0.00	Recycling Credits are now received monthly rather than quarterly. The budget is profiled on the basis of receiving the income the month following that to which it relates.
Off Street Parking	1,088	265	288	271	23	8.68	Penalty charge notice income overall has increased when compared to the same period last year. However Off Street notices have gone up and on street has seen a reduction.
On Street Parking	519	130	114	122	-16	-12.31	
North Weald Centre	1,361	478	479	407	1	0.21	
	4,029	1,036	1,025	773			

	09/10 Full Year Budget £'000	First Quarter			09/10 Variance Budget v Actual		Comments
		09/10 Budget £'000	09/10 Actual £'000	08/09 Actual £'000	£'000	%	
<u>Major expenditure items:</u>							
Managing Tenancies	277	239	235	224	-4	-1.67	
Housing Repairs	5,947	1,464	1,250	1,132	-214	-14.62	The underspend mainly relates to the responsive repairs area of the repairs fund. The budget is profiled evenly across the year, as it is unknown when responsive repairs will be required.
Special Services	1,720	385	195	258	-190	-49.35	There are a number of areas showing an underspend the most significant relating to the Housing Land Cleansing which is carried out by the Waste Management Contractor.
	7,944	2,088	1,680	1,614			
<u>Major income items:</u>							
Non-Dwelling Rents	2,552	638	661	528	23	3.61	Actual income is higher due to a number of rent reviews however there are also fewer empty shops than assumed within the budget.
Gross Dwelling Rent	25,386	6,346	6,351	5,642	5	0.08	There was only one Council House sale in the first quarter
	27,938	6,984	7,012	6,170			

2009/10 DIRECTORATE CAPITAL MONITORING -  
CORPORATE SUPPORT SERVICE

ANNEX 10

	09/10 Full Year Budget £'000	First Quarter		09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget £'000	09/10 Actual £'000	£'000	%	
Civic Office Works	552	60	6	-54	-90	The Planned Maintenance Programme for the Civic Offices has recently been re-assessed and 11 of the projects are currently underway and expected to be completed this financial year. However, it is anticipated that 6 projects will slip into 2010/11. A carry forward in the region of £314,000 is likely to be recommended as part of the Capital Review.
Other Planned Maintenance	73	0	0	0	0	This includes budgets of £50,000 for the Upgrade of the Industrial Units; £15,000 for the flat roof at Waltham Abbey Swimming Pool; and £8,000 for the Museum Roof. These projects are planned for later in the year.
<b>Total</b>	<b>625</b>	<b>60</b>	<b>6</b>			

2009/10 DIRECTORATE CAPITAL MONITORING -  
FINANCE & ICT.

ANNEX 11

	09/10 Full Year Budget £'000	First Quarter		09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget £'000	09/10 Actual £'000	£'000	%	
General Capital Contingency	177	0	0	0	0	This unallocated budget is automatically profiled into month 12 unless authority is granted to use it on a specific scheme. It is then moved to the relevant General Fund Capital heading.
Customer Services Transformation Programme	500	0	0	0	0	See comments on major schemes schedule.
ICT Projects	602	59	52	-7	-12	A programme of ICT capital projects for 2009/10 has been drawn up; several schemes have already commenced and some large schemes are due to be undertaken later in the year.
<b>Total</b>	<b>1,279</b>	<b>59</b>	<b>52</b>			

	09/10 Full Year Budget £'000	First Quarter		09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget £'000	09/10 Actual £'000	£'000	%	
Leisure Centre Works	1,676	163	126	-37	-23	Feasibility studies are being undertaken in respect of works to the playing fields at Ongar and sports facilities in Waltham Abbey. A report will be presented to members regarding funding the Ongar scheme once the information is available. The fitness equipment at Loughton Leisure Centre has been purchased and the outstanding works on the sports centre are due to be finalised this year.
Waste Management Equipment & Vehicles	1,875	0	0	0	0	All bins and kitchen caddies have been ordered and distribution to residents has now commenced; this is expected to take four to five weeks. Five vehicles have also been ordered and we are on target to start the new collection service in September.
Bobbingworth Tip	254	64	-50	-114	-179	See comments on major schemes schedule.
Car Parking & Traffic Schemes	857	214	-86	-300	-140	The negative actual spend relates to expenditure due to Essex County Council charged to 2008/09 but not paid to date. Officers have been pursuing and finalising the outstanding invoices, which are expected to be paid shortly. Estimates in respect of current and future commitments are also being re-assessed and carry forwards are likely.
North Weald Airfield	288	72	1	-71	-99	The £10,000 budget for the fire cover vehicle was brought forward from 2008/09 and it is expected to be spent this financial year. The contribution for capital improvement works in respect of the market at North Weald Airfield will be revised downwards significantly as part of the Capital Review.
Other Environmental works	282	0	0	0	0	The Safer Cleaner Greener equipment, remaining refuse bins for flats and grounds maintenance vehicles are all expected to be purchased before the end of the year. Capital works relating to flood alleviation schemes are being assessed and it is likely that some of this budget will be carried forward.
<b>Total</b>	<b>5,232</b>	<b>513</b>	<b>-9</b>			

	09/10 Full Year Budget	First Quarter		09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget	09/10 Actual	£'000	%	
	£'000	£'000	£'000			
Youth Sports Facilities	9	0	0	0	0	Only a small sum remains unspent of the original £300,000 allocation. Requests for the final grant approvals are being considered.
Children's Play Facilities	162	0	0	0	0	The play park at Limes Farm was completed last year and the youth facilities are due to be completed by the end of August. The playground equipment at Hoe Lane, Nazeing is now fully installed and the payment is being processed in August. The final two projects at Elizabeth Close, Nazeing and Pancroft Ring, Lambourne are planned for September/October 2009 and February/March 2010 respectively.
<b>Total</b>	<b>171</b>	<b>0</b>	<b>0</b>			



	09/10	First Quarter		09/10		<u>Comments</u>
	Full Year	09/10	09/10	Variance		
	Budget	Budget	Actual	Budget v Actual		
	£'000	£'000	£'000	£'000	%	
Loughton Broadway Works TCE	1,508	377	159	-218	-58	See comments on major schemes schedule.
Planning Capital Works	27	7	-9	-16	-233	The majority of this relates to works funded by Housing and Planning Delivery Grant brought forward from 2008/09. The negative actual spend relates to expenditure charged to last year which has not been paid yet.
<b>Total</b>	<b>1,535</b>	<b>384</b>	<b>150</b>			

	09/10 Full Year Budget £'000	First Quarter		09/10 Variance Budget v Actual		<u>Comments</u>
		09/10 Budget £'000	09/10 Actual £'000	£'000	%	
Contributions to Affordable Housing	155	0	0	0	0	The scheme at Pyrles Lane, Loughton has recently been completed and a final payment to Estuary Housing Association is outstanding.
Disabled Facilities Grants	435	100	71	-29	-29	Despite expenditure being relatively low in quarter 1, there are no indications to suggest that demand has fallen. A report is currently being prepared for Cabinet which forecasts anticipated expenditure to be £400,000 per year.
Other Private Sector Grants	592	88	87	-1	-1	This budget includes the £310,000 contingency sum set aside specifically for private sector grants. The Cabinet report being prepared reassesses anticipated expenditure at £350,000 per year and rephases the contingency into future years.
Home Ownership Schemes	554	34	34	0	0	All the original 5 Home Ownership Grants have been paid and approval was given for 5 more grants in March 2009 with a corresponding additional budget of £170,000. It is likely that some of this may need to be carried forward. The budget of £350,000 for Open Market Shared Ownership Grants was brought forward from last year; The Director of Housing is considering the most effective use of this budget and will be reporting to Cabinet in the near future; it is unlikely however that the whole budget will be spent this year..
Alfred Road Drainage Works	9	0	0	0	0	This scheme has now been closed and will be removed from the capital programme when revised.
Cpo 8/8a Sun Street W Abbey	378	0	0	0	0	Planning permission has been granted to the owner of the property to re-develop the site. If the owner goes ahead with the works, the CPO will not be necessary but this is not certain at present and the situation is being monitored.
<b>Total</b>	<b>2,123</b>	<b>222</b>	<b>192</b>			

	09/10 Full Year Budget £'000	First Quarter		09/10 Variance Budget v Actual		Comments
		09/10 Budget	09/10 Actual	£'000	%	
		£'000	£'000			
Springfields, Waltham Abbey	1,548	387	395	8	2	See comments on major schemes schedule.
Heating/Rewiring	1,037	379	410	31	8	New heating upgrades and boiler replacements are progressing on target. However, rewiring work has increased as a result of a comprehensive programme of testing, which identified a large volume of work. The rewiring budget is therefore likely to require additional funds of up to £250,000; a virement may therefore be sought as part of the Capital Review in October.
Windows/Roofing / Asbestos / Water Tanks	916	177	170	-7	-4	Both roofing contracts are underway and on programme, the domestic water tank replacement contract is underway with the communal water tank replacement tender due out in October, work is expected to start on communal water tanks early in 2010. The 2009/10 PVCu budget is being spent on front entrance door replacements as the contract for PVCu windows is currently out to tender and it is anticipated that the works will start next financial year.
Other Planned Maintenance	752	115	78	-37	-33	Overall this budget is underspent due to delays in letting the door entry contract and installation delays in the communal TV upgrade programme. No major drainage schemes have been scheduled for works this financial year and works are due commence 2011/12. With regard to energy efficiency works, most properties in the district now benefit from loft and cavity wall insulation and identifying additional properties for inclusion in this programme is difficult; other energy efficiency measures are now being considered. There are likely to be significant carry forwards on these budgets and there may be some savings; it is possible that a virement may be requested from the 'other planned maintenance' budgets to provide additional funds for the rewiring budget. Any changes recommended will be presented to Members as part of the Capital Review.
Other Capital Works	4,721	1,018	606	-412	-40	The three year bathroom and kitchen replacement programme commenced in August 2008 and works are on programme. A one-off additional sum of £200,000 was approved in April for disabled adaptations to help clear the backlog and an increase in the installation programme is underway. Works have commenced on miscellaneous structural repairs with an increased works programme planned for quarter 2. It is anticipated that savings from other capital works in this section will be required for the funding of the Parsonage Court Conversion once assessed; any virements will be requested as part of the Capital Review in October.
<b>Total</b>	<b>8,974</b>	<b>2,076</b>	<b>1,659</b>			

Capital Project	Original Start Date	Latest Est/ Actual Start Date	Original Finish Date	Latest Est/ Actual Finish Date	Original Total Project Cost £'000	Latest Total Project Cost £'000	Variance %	Actual Exp To Date £'000
<b>Bobbingworth Tip</b>	May-05	Mar-07	Nov-05	Dec-09	1,107	2,492	125%	2,208
The scheme is essentially complete with grass seeding and planting on the surface having been achieved. However, there are some fencing and security works still to be finished subject to planning consent and Viola have been tasked to complete all works by December 2009. It is anticipated that the final account and report will be presented to Cabinet by the end of the financial year. At present, the the total scheme budget stands at £2,492,000. excluding the £20,000 contribution from Essex County Council for tree planting.								
<b>Loughton Broadway Town Centre Enhancement</b>	Jul-06	Oct-06	Oct-06	Aug-09	3,003	3,631	21%	2,282
Phase 1 and phase 2 of the scheme are now complete. Subject to finalising the accounts, it is anticipated that actual costs will be below budget and the Director of Environment and Street Scene will be submitting a report to Cabinet in the near future.								
<b>Customer Services Transformation Programme</b>	n/a	n/a	n/a	n/a	2,500	2,500	n/a	0
At its meeting on 30 April, the Customer Transformation Task and Finish Panel, agreed to undertake a detailed feasibility study to establish the costs of a new customer services/reception area to include innovative use of new technology. This will be financed from the capital allocation on the basis that the works will proceed in the future.								
<b>Springfields Improvement Scheme Works (HRA)</b>	Jul-04	Nov-07	Nov-07	Aug-09	4,033	4,524	12%	3,573
Work commenced on the contract on 5 November 2007 and the contractors are expecting to complete on 14 August 2009.; this represents a 27 week delay primarily due to the unexpected need to replace french doors and windows to top floor balconies. The progress report presented to Cabinet in June estimated potential additional costs, including staff time, and the contingency sum agreed at the meeting has been added to the total project cost to give a revised sum of £4,524,000; this excludes the cost of the repurchases.								



Accountants &  
business advisers

## **Epping Forest District Council**

# **Annual Governance Report 2008/09**

September 2009

**DRAFT**

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

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

# 1 Executive summary

- 1.1 We report to you in accordance with the provisions of International Auditing Standard 260, which requires us to report to “those charged with governance”, prior to issuing our opinion on the financial statements and giving our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

## Findings and conclusions

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

Area of audit	Findings & Conclusion
<b>Accounts</b>	
Key financial systems	The <b>key financial systems are adequate as a basis for preparing the financial statements</b> and no significant control weaknesses were identified that impacted on our opinion.
Financial statements	<b>An error of £1,048,074 was identified as a result of our audit work</b> in respect of impairment of the Council's housing stock. This is individually material but when aggregated with other errors the net impact on the impairment figure was less than material. This has been corrected. Also, a number of non-trivial, but not material, errors have been identified and corrected. <b>Overall, the net impact of the corrections made to the financial statements, as a result of the audit, is to increase the reported deficit by £721,464, which is below our materiality level.</b> <b>Some areas of work are still outstanding at the time of drafting this report.</b> Should these result in any significant issues, we will give a verbal update to Members at the Audit Committee. <b>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified opinion on the financial statements.</b>
<b>Use of resources</b>	
Use of resources assessment	Our assessment for use of resources is that the Council is <b>performing adequately in respect of managing finances, governing the business and managing resources.</b>
Data Quality	Management arrangements to ensure the quality of reported performance information are considered adequate.
VFM conclusion	<b>We anticipate issuing an unqualified value for money conclusion.</b>

## Acknowledgement

- 1.3 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

## 2 Introduction

- 2.1 This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 2.2 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 ("ISA 260") which requires us to report key findings from the audit to "those charged with governance", prior to issuing our opinion on the financial statements.

### Findings

- 2.3 Detailed recommendations in response to the key findings identified by our audit are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and responses are included in the action plan where appropriate.
- 2.4 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have not restated recommendations already made by Internal Audit.

### Independence

- 2.5 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2008/09, has remained valid throughout the period of the audit.



## 3 Accounts

### Requirements

- 3.1 We are required to provide an opinion on whether your financial statements present fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with appropriate legislation.
- 3.2 We carry out procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the accounts are free from material misstatement and evaluate the overall presentation in order to ascertain whether they have been prepared in accordance with relevant legislation and accounting standards.
- 3.3 We identify the principal areas of risk of material misstatement from our knowledge of the Council, of the environment in which it operates and from discussions with management. We address these risks by carrying out appropriate audit procedures.
- 3.4 We apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all risks or potential and actual misstatements. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.
- 3.5 We set a triviality level of £48,000 for the 2008/09 accounts audit and have not reported to you any matters arising below this level.

### Accounts risks

- 3.6 The findings from our review of accounts risks and matters of emphasis identified in our audit planning are summarised as follows:

Risk area	Overall conclusion
<b>Significant audit risks</b>	
<b>Academy system implementation</b>	<p>Internal Audit undertook a review and carried out testing on the migration from the Orbis system to the Academy system. No significant issues were identified.</p> <p>Internal Audit also carried out testing of the controls over the processing of housing and council tax benefits. Their sample sizes were considered to be adequate but only covered the controls in place during the operation of the Orbis system, the controls in operation since implementation of the Academy system in February 2009 had not been reviewed. We therefore undertook this testing.</p> <p>A lapse in controls was identified around the 5% checks performed by senior benefits staff on new claims. This was found not to be effective between April and September 2008. Assurance over the accuracy of benefit expenditure has been taken from the results of our benefits under testing on the Housing and Council Tax Benefit Subsidy (BEN01) grant claim. We concluded that benefit expenditure recorded in the accounts is materially accurate.</p>
<b>Property management system implementation</b>	<p>A specific test was carried out to review the implementation of the new system. Due to difficulties in finalising the asset data the new system had not been implemented at the time the accounts were signed.</p>

Risk area	Overall conclusion
<b>Council dwelling property numbers</b>	It was identified in the prior year that the number of properties used to undertake the revaluation of housing stock differed significantly from the Council's records. Further work was being undertaken by the Council in 2008/09 to review the accuracy of the Council's records and reconcile them to the Valuer's list. We reviewed and tested the Council's reconciliation, and the corrective adjustment that was made to bring the financial statements into line with the underlying records, as well as undertaking extended substantive testing to verify the ownership of specific properties. As a result we identified an error in the accounts of £1,048,074, which was not material to the balance sheet but had a resultant effect on the impairment charge on housing stock, which is material to the Income and Expenditure Account. More detail is included in paragraphs 3.15 to 3.18 below.
<b>Matters of audit emphasis</b>	
<b>Investment in Icelandic banks</b>	<p>Additional testing was carried out to ensure that the disclosures in respect of the Council's two Heritable Bank investments, totalling £2.5m, were in accordance with guidance provided by CIPFA. This was predominately carried out in advance of the approval of the accounts. No errors were identified from the procedures carried out and we concluded that the investment, and its impairment, had been appropriately accounted for. Updated guidance on the impairment of these investments was issued by CIPFA in September, but the impact on the investment return and accounts was trivial so no adjustments were made.</p> <p>We also considered the impact of the investments on the overall financial standing of the Council and concluded that in light of the anticipated 80% recovery rate projected by the bank's Administrators, and the combined General Fund and Earmarked Reserves Balances of £17m, the impact is not significant.</p>
<b>Income reconciliations</b>	Additional testing was carried out to ensure that material income streams had been appropriately reconciled at the year end. We concluded that material income streams were appropriately reconciled.
<b>Bad debt provision</b>	Greater scrutiny of the bad debt provision methodology was carried out to ensure that the bad debt provision was appropriate given the current economic climate. We concluded that the bad debt provision was appropriate in the context of the current economic climate and the Council's recorded recovery rates.

## Reporting to those charged with governance

3.7 In accordance with the requirements of International Standard on Auditing 260 ("ISA 260"), auditors are required to communicate relevant matters relating to the audit with those charged with governance. In particular we are required to report:

- qualitative aspects of **accounting practices and financial reporting**
- final draft **letter of representation** to be agreed by management and those charged with governance
- **uncorrected misstatements**
- expected modifications to the **audit report**
- material weaknesses in **accounting and internal control systems** identified during our work

- **matters required to be reported by other auditing standards**
- any **other audit matters of governance interest**.

3.8 Our comments in each of these areas are set out below:

## **Accounting practices and financial reporting**

### ***Application of accounting policies***

3.9 The key changes introduced by the 2008 SORP were:

- the replacement of deferred charges with revenue expenditure funded from capital under statute
- the prohibition of revaluing fixed assets on disposal
- the clarification of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments

3.10 The Council responded satisfactorily to these key changes with only one minor error identified in that debtors and creditors had been erroneously excluded from the financial instruments note in the financial statements. This has been corrected.

### ***The accounts preparation process***

3.11 The draft financial statements were approved by Members on 30 June 2009 which was in line with the statutory deadline. As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with files of working papers and draft accounts on the first day of the audit. Improvements were noted with the quality of the working paper file provided this year, which led to a reduction in the number of audit queries. However, there is still further scope for improvement and this will be fully discussed with officers at the audit debrief meeting.

### ***Testing of transactions and balances***

3.12 As part of our audit approach, all material balances were subject to audit testing and agreement, on a sample basis, to supporting documentation. A number of amendments were made to the draft accounts as a result of our audit findings, the most significant of which were in respect of:

- Investment property impairment
- Valuation and impairment of housing stock
- Garage impairment
- Housing and council tax benefit subsidy and National Non Domestic Rates (NNDR) income.

3.13 These matters are explained in the following paragraphs in the order set out above:

#### **Investment property impairment**

3.14 The Council had a number of investment properties which were impaired by £657,000 as at 1st April 2008. The Council had erroneously accounted for this impairment through the revaluation reserve and capital adjustment account, netting off the impairment charge against the revaluation. As these assets had not previously been revalued, the correct treatment would be to account for the impairment through the Income and Expenditure Account. This is a non-trivial but not material error that has been corrected.

### Valuation and impairment of housing stock

- 3.15 The Council's policy on revaluation provides for a desk top revaluation of housing stock (including garages) to be completed annually by the District Valuer. This revaluation is based upon the housing figure notified by the Council in 2005, adjusted each year for disposals. The 2007/08 audit identified a mismatch between the number of houses and garages used in the District Valuer's revaluation and the figures disclosed in the accounts.
- 3.16 These were corrected in the prior year accounts and in light of additional information as at 1 April 2008 the Council attempted to improve the position as at the 31 March 2008 to ensure the correct revaluation was being included in the revaluation reserve.
- 3.17 The Council's detailed review of the housing stock identified a balance of £1,863,216 in respect of 25 properties, which the Council no longer owned but had been included in the District Valuer's valuation as at 1 April 2008. This adjustment was made in the draft accounts, in order to realign the financial statements with the underlying records of housing stock. No prior period adjustment was made as the amount was not material in the context of the balance sheet.
- 3.18 However, our audit testing identified that this adjustment had been misstated and the reconciling difference between the Valuer's valuation and the audited underlying records of the Council was only £815,142, in respect of 18 properties that the Council no longer owned. This therefore meant that a correcting adjustment of £1,048,074 was required. This adjustment had a resultant effect on the impairment charge made to the Income and Expenditure Account which was understated by the same amount. This error is not material to the balance sheet but is material in the context of the Income and Expenditure Account and has been corrected. The charge to the Income and Expenditure account is reversed out through the Statement of Movement on the General Fund Balance and does not impact on the General Fund Balance carried forward.

### Garage impairment

- 3.19 The garage impairment value had been incorrectly calculated due to presence of an error in the formula in the calculations spreadsheet that resulted in double counting. Consequently, the impairment was overstated by £737,752. This is a non-trivial but not material error that has been corrected.

### Housing and council tax benefit subsidy and NNDR income

- 3.20 The housing and council tax benefit subsidy income recorded in the financial statements was understated by £246,000 due to the incorrect processing of the adjustments arising from the audit of the 2007/08 subsidy claim form, with an associated impact on year end creditors. Similarly, a £140,790 adjustment to the NNDR claim for 2007/08 had not been adjusted in the Council's ledger, resulting in an understatement of income by this amount. These errors are non-trivial but not material error and have been corrected.

### Adequacy of disclosures

- 3.21 We identified a small number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the SORP. These have been amended by the Council.
- 3.22 More significantly, the Council did not include disclosure of the net assets employed in trading operations within the trading operations notes to the financial statements. This has been amended by the Council.

### Letter of representation

- 3.23 The draft letter of representation has been attached as Appendix B. We do not anticipate any changes being required before providing our opinion on the financial statements.

## Uncorrected misstatements

- 3.24 There were no uncorrected misstatements. Overall, the net impact of the corrections made to the financial statements as a result of the audit is to increase the reported deficit by £721,464, which is below our materiality level.

## Audit report

- 3.25 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the accounts:
- Receipt of the pension fund auditor's letter of assurance
  - Receipt of some outstanding third party investment and bank confirmation letters
  - Clearance of Manager and Partner review points.
- 3.26 We will provide a verbal update on these outstanding issues at the Audit & Governance Committee.
- 3.27 We are also required to give a certificate of completion of the audit and the giving of it is dependent upon there being no relevant matters arising which would prevent this.

## Accounting and internal control systems

- 3.28 We have reviewed the key financial systems, which contribute to the preparation of materially accurate financial statements, to assess the extent to which we can place reliance on them for this purpose. In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the financial statements
  - the robustness of your accounts preparation processes.
- 3.29 In assessing the reliability of systems as a basis for providing financial information that is free from material misstatement, we prepared systems notes for each financial system and we evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.
- 3.30 Your key financial systems are:
- Main accounting
  - Cash and bank
  - Payments and creditors
  - Non-contracting income and debtors
  - Payroll and employment costs
  - Information technology
  - Council tax
  - Housing and council tax benefits
  - NNDR
  - Housing rents income
  - Investments and investment income
- 3.31 We also have a responsibility to give specific consideration to the potential risk of material misstatement of your financial statements due to fraud and error, including the risk of fraudulent financial reporting. This requires us to:
- review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
  - review the arrangements for preparing the financial statements
  - select and test transactions and balances, including review of significant balances against expectations and substantiate individual items

- assess the significant estimates and judgements made by officers in preparing the accounts
  - consider the adequacy of presentation and disclosures included in the financial statements.
- 3.32 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.
- 3.33 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
  - considered the robustness of the key financial systems on the evidence of this work
  - re-performed Internal Audit's evaluation of controls and a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based.
- 3.34 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers, and those charged with governance
  - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
  - made enquiries regarding instances of actual fraud you have identified.
- 3.35 We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls.

## Conclusions

- 3.36 As a result of our work, we have concluded that the key financial systems are generally adequate as a basis for preparing the financial statements and no significant control weaknesses were identified as a result of our audit. We have included in Appendix A any recommendations arising from issues identified during our work.
- 3.37 We did not identify any significant fraud risks that affected our audit programme for the financial statements.

## Matters required to be reported by other auditing standards

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

## Other audit matters of governance interest

### *Annual governance statement*

- 3.39 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2008/09 financial statements.
- 3.40 We requested some amendments to the draft AGS to remove some information relating to the 2007/08 Use of Resources assessment which, whilst it was the only available information at the time of drafting the AGS, was considered to be misleading. This is because it has been superseded by the 2008/09 assessment, reported in section 4 of this report, which was completed on a different basis and conflicts with the scores currently included in the AGS.

- 3.41 We also recommended that the content be streamlined by removal of extensive narrative around a broad range of general improvements made in 2008/09. This type of narrative is outside the scope of the AGS which should focus on the governance framework, the effectiveness of its operation during the year and action being taken to address significant weaknesses arising from the effectiveness review of the governance framework undertaken during the year.
- 3.42 All of these changes have been made and we are satisfied that the revised AGS, and the supporting effectiveness review that was undertaken, is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### ***International Financial Reporting Standards***

- 3.43 International Financial Reporting Standards (FRSs) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. Entities adopting IFRSs need to commence work to restate the balance sheet two years' prior to the first year of reporting, that being a restatement of the balance sheet at 31 March 2009.
- 3.44 Management should prepare for the adoption of IFRSs based on the Treasury timescales and ensure that staff have sufficient knowledge of IFRSs to restate the current financial statements. The Council has not yet reviewed the potential impact of the change to IFRSs on their accounts and should develop a formal timetable and detailed implementation plan as soon as possible.

## 4 Use of resources

- 4.1 The Audit Commission's Code of Audit Practice ('the Code') requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (sometimes referred to as value for money – 'VFM') and to reach and report on a conclusion on whether proper arrangements have been made. We refer to this as our VFM conclusion. The conclusion is included in the Auditors' Report within the financial statements.
- 4.2 We are also required by the Code to undertake a use of resources assessment, the results of which are used to inform our VFM conclusion. The conclusion also draws on the results of local risk based audit, as well as consideration of the Council's processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.

### Use of resources risks

- 4.3 The findings from our review of use of resources risks identified in our audit plan are summarised as follows:

Risk area	Findings and Conclusion
<p><b>Health inequalities</b></p>	<p>Our objective for 2008/09 was to monitor LSP-level action planning in response to our Essex-wide primary review in 2007/08, reported in March 2008. We have met with officers to discuss progress and to obtain an understanding of high-level actions already being undertaken.</p> <p>We are satisfied that the Council and LSP are making useful progress in this area, with the work within 2008/09 primarily focusing on review and analysis of arrangements that had been in place and progressing with constitutional changes to secure improvements from 2009/10.</p> <p>We will be undertaking a full scale follow-up in early 2010 when process changes and impact and outcomes will be assessed in more detail.</p>

### Use of resources assessment

- 4.4 For 2008/09 the Audit Commission redesigned the overall framework for use of resources assessments. The new assessment considers how well organisations are managing and using their resources to deliver value for money and better, sustainable outcomes for local people. The assessment comprises three themes, underpinned by ten Key Lines of Enquiry (KLOE). The themes focus on:
- Governing the business - sound and strategic financial management
  - Managing finances - strategic commissioning and good governance
  - Managing resources - management of natural resources, assets and people.
- 4.5 The new use of resources approach is more demanding than previous assessments, focusing more on value for money achievements, outputs and outcomes rather than on processes. The KLOE are therefore more strategic and are more broadly based than previously, embracing wider resource issues such as workforce planning. Consequently, the scores resultant from this year's assessment are not directly comparable to previous years' scores.
- 4.6 Each theme consists of a number of key lines of enquiry (KLOE) that form the areas of audit focus and auditors are required to score organisations against each of the KLOE. The use of resources assessment scoring mechanism is defined as follows:



Score	Judgement	Conclusion
1	Failure to meet minimum requirements	Performing inadequately
2	Meets only minimum requirements	Performing adequately
3	Exceeds minimum requirements	Performing well
4	Significantly exceeds minimum requirements	Performing excellently

4.7 The results of this work are used in forming our overall conclusion on VFM, as the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion. A score of 1 for any criterion in each of the themes will normally result in a qualification of the VFM conclusion as the result is judged inadequate.

4.8 The results of our work are set out in the table below:

Theme	Code criterion	Criterion met	2008/09 score
<b>Managing Finances</b>	The organisation plans its finances effectively to deliver its strategic priorities and secure sound financial health	Yes	2
	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	Yes	2
	The organisation's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	Yes	2
	<b>Weighted score</b>		<b>2</b>
<b>Governing the business</b>	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes	2
	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	Yes	2
	The organisation promotes and demonstrates the principles and values of good governance	Yes	2
	The organisation manages its risks and maintains a sound system of internal control	Yes	2
	<b>Weighted score</b>		<b>2</b>
<b>Managing Resources</b>	The organisation is making effective use of natural resources	N/A	N/A
	The organisation manages its assets effectively to help deliver its strategic priorities and service needs	N/A	N/A
	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	Yes	2
	<b>Weighted score</b>		<b>2</b>

4.9 We will issue a separate report on the detailed findings from our use of resources assessment.

## Value for money conclusion

4.10 Our conclusion is that adequate arrangements are in place to secure value for money.

## Appendix A: Action plan

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<b>ACCOUNTS</b>					
<b>Fixed assets</b>					
<p>The housing stock numbers supplied to, and used by, the District Valuer in preparing the annual desktop revaluation of Council dwellings and garages were incorrect. This is an historical issue that has been adjusted this year to determine an appropriate baseline for future valuations.</p> <p>This will prevent future mismatches in property numbers and support production of materially accurate financial statements in future.</p>	<p>1. Provide the District Valuer a full annual analysis of housing stock each year and ensure that the number of properties valued agrees to the housing stock details.</p>	High	Agreed	Assistant Director Accountancy	March 2010
<b>Debtors, creditors and bad debt provision</b>					
<p>The financial statements include a debtor balance and provision for bad debts in respect of service charges to ex-council tenants that have bought the long term lease on their flat. These ex-tenants are billed an estimated charge during the year and after the year end the Council calculates the final service charges based upon the actual work carried out in the year. This results in a combination of additional charges and refunds being raised. The figure shown in the financial statements is the net of the estimated amounts to be repaid. An estimate is required because the actual charges are not worked out until the following October, some six months after the financial year end.</p> <p>To comply with the SORP and Financial reporting Standards, debtors and creditors should be accounted for gross in the financial statements.</p>	<p>2. Account for debtors and creditors separately i.e. gross, not net, in the financial statements.</p> <p>3. Review the processes for calculating the service charge debtors and creditors in order to improve the speed of finalisation and the accuracy of the entries in the financial statements.</p>	<p>Medium</p> <p>Low</p>	We will review the processes with colleagues in housing to address these issues.	Assistant Director Accountancy	March 2010

Conclusions from work	Recommendations	Priority	Management response	Responsibility	Timing
<b>IFRS Implementation</b>					
<p>In 2010/11 the Council are required to report their financial statements under IFRS rather than UK GAAP.</p> <p>The Council need to ensure they have an appropriate timetable in place to deal with the significant changes in accounting treatments and disclosures and that their systems can cope with the changes.</p>	4. Develop a formal IFRS timetable and detailed implementation plan as soon as possible.	High	This is already work in progress and will be completed shortly.	Assistant Director Accountancy	October 2009
<b>SYSTEMS</b>					
<b>Information technology</b>					
<p>The ICT department has a disaster recovery plan embedded within the overall corporate plan. During the year the disaster recovery plan was reviewed and updated but had not yet received formal approval nor been tested.</p> <p>Approval, distribution and routine testing of the plan will ensure the Council's response to any incident will be robust and able to minimise the risk of non recovery.</p>	5. Formally approve and distribute the updated disaster recovery plan and ensure it is routinely tested.	Medium	The disaster recovery plan has been approved and distributed accordingly throughout the ICT department. Arrangements to test the recovery plan will be put in place in 2009/10.	Assistant Director ICT	March 2010
<b>Housing rents</b>					
<p>Reconciliations are carried out by the Senior Housing Officer between the OHMs and Academy system and the OHMs and Cedar system but there is no evidence to show who has carried these out.</p> <p>This will provide an audit trail to show that the checks have been performed and that the appropriate staff member has carried out the reconciliation.</p>	6. The Senior Housing Officer should sign the reconciliations between OHM's and Academy system and the OHM's and Cedar system to show who has carried this out.	Medium	Agreed.	Senior Housing Officer	Immediate

## Appendix B: Draft letter of representation

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

[24] September 2009

Dear Sirs

### Financial statements of Epping Forest District Council for the year ended 31 March 2009

#### Representations of the Director of Finance and ICT

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

#### Responsibility for the financial statements

I acknowledge as the Director of Finance and ICT and s151 Officer my responsibilities for the financial statements.

#### Completeness of information

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

#### Internal control

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

#### Fraud

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

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

#### Compliance with law and regulations

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

#### Transactions with related parties

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

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

#### Contingent liabilities

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council that have not already been reported in the financial statements.

### Pension fund assumptions

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

- Rate of inflation 3.3%
- Rate of increase in salaries 4.8%
- Rate of increase in pensions 3.3%
- Rate for discounting scheme liabilities 7.1%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities and that the obligation profile for the Council is not out of line with the profile of the bonds used to determine the discount rate.

### Subsequent events

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

Yours faithfully

**Bob Palmer**

**Director of Finance and ICT**

***Representations of the Council***

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

**Responsibility for the financial statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements.

**Annual Governance Statement**

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

Yours faithfully

**Cllr A Green**  
**Audit Committee Chair**

Signed on behalf of the Council

## Appendix C: Draft audit report

### *Independent auditors' report to the Members of Epping Forest District Council*

#### **Opinion on the financial statements**

We have audited the Authority accounting statements and related notes of Epping Forest District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Epping Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Director of Finance and ICT and auditors**

The Director of Finance and ICT's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the Summary of Outturn. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

## Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner on behalf of PKF (UK) LLP  
London, UK

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

### *Authority's Responsibilities*

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

### *Auditors' Responsibilities*

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### *Conclusion*

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, Epping Forest District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

### *Certificate*

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

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Richard Bint  
Partner on behalf of PKF (UK) LLP  
London, UK



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



**Epping Forest  
District Council**

**Report Reference: FPM-010-2009/10.**

**Date of meeting: 5 October 2009.**

**Portfolio: Finance and Economic Development.**

**Subject: Financial Issues Paper.**

**Responsible Officer: Bob Palmer (01992 564279)**

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

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### **Recommendations/Decisions Required:**

**(1) To make recommendations to the Cabinet on establishing a new budgetary framework including:**

**(a) setting 2009/10 budget guidelines for the:**

**(i) the Continuing Services Budget (including growth items);**

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

**(iii) the use of surplus General Fund balances; and**

**(iv) the District Council Tax for a Band 'D' property;**

**(b) a revised Medium Term Financial Strategy for the period to 2013/14, including the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders; and**

**(c) establishing a joint Member and Officer group to identify areas for review and ensure resources are allocated in line with key Cabinet priorities.**

### **Executive Summary:**

This report provides a framework for the Budget 2010/11 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

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

- Likely reductions in grant as part of the next Comprehensive Spending Review
- Effects of the "Credit Crunch" and reduced activity in the housing market
- Using up of capital reserves on non-revenue generating assets
- Pay awards
- Next triennial pension valuation
- Capitalisation of pension deficit payments
- Changes to the statutory concessionary fares scheme
- Customer Services Transformation Programme

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2010/11.

### **Reasons for Proposed Decision:**

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

### **Other Options for Action:**

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

### **Report:**

#### General Fund Out-turn 2008/09

1. Members have already received the outturn figures and the Statutory Statement of Accounts for 2008/09 together with explanations for the variances. In summary the General Fund Revenue outturn for 2008/09 shows that CSB expenditure was £509,000 lower than the original estimate and £187,000 lower than the revised. The main variance, as in 2007/08, related to staff savings arising from vacancies.

2. The revised CSB estimate for 2008/09 reduced from £16.828m to £16.506m with the actual being £16.319m. Growth and savings items were largely as estimated with the main fluctuation being on the opening CSB figure, which is consistent with the main variance arising from salary savings.

3. DDF expenditure was underspent by £449,000, compared to the revised estimate. However £280,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2009/10, giving a net saving of £169,000. Net portfolio DDF spending exceeded the revised estimate by £102,000, due to the surplus balance transferred to the DDF from the Insurance Fund being £117,000 lower than anticipated. However, non-portfolio income items exceeded the revised estimate by £271,000 to give the total DDF saving of £169,000.

4. The non-portfolio items include the Local Authority Business Growth Incentive Scheme (LABGI). Due to the uncertainty over the future of this scheme and legal challenges to the amounts due no income was anticipated but grant of £164,000 was received. In line with the prudent wish to avoid over reliance on investment income to support the CSB, the bulk of the additional investment income earned in 2008/09 was credited to the DDF. The inclusion of the LABGI income and the underspend mean the balance on the DDF is higher than previously predicted at £3.122m at 31 March 2009. However, the vast majority of this amount is committed to finance the present programme of DDF expenditure, particularly the Local Development Framework.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend of £509,000, compared to the original estimate. This translates into an increase in balances of £728,000 compared to the revised estimate of an increase of £541,000. The original estimate had indicated an increase of £219,000.

## The Updated Medium Term Financial Strategy

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2008/09 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will decrease by £0.7m in 2009/10, £0.8m in 2010/11, £0.4m in 2011/12 and £0.1m in 2012/13 before returning to a small surplus in 2013/14.

7. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2010 of £7.485m represents just over 43% of the anticipated NBR for next year (£17.558m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2014 the revenue balance will have reduced to £6.216m. This still represents nearly 36% of the NBR for 2013/14 (£17.274m).

8. The financial position as at 1 April 2009 was better than had been anticipated, however the change in the key assumption about future grant funding has increased the level of savings that need to be identified. This may prove difficult to achieve without the Council Tax needing to be increased above current target levels during the next four years.

9. The target saving for 2010/11 has been left at the original level of £300,000; this increases to £600,000 for 2011/12 and then reduces to £400,000 and £200,000 for the subsequent years. These net savings could arise either from reductions in expenditure or increases in income. What is clear is that given the levels of savings now required, it is no longer sufficient to talk in terms of "efficiencies". Members will have to make difficult decisions about reducing or stopping some non-priority services. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £492,000 of DDF funds available at 1 April 2014. The four-year forecast approved by Council on 17 February 2009 predicted a DDF balance of £488,000 at the end of 2012/13 and this has not changed significantly.

11. Capital balances have been updated for recent outturn figures and updated assumptions on capital receipt generation. The reduction in estimated capital receipts means that the predicted balance at 1 April 2014 falls to £10.930m. Over this four-year period the capital programme has some £49m of spending. As capital balances are used up the revenue benefit from interest earnings is reduced and so care needs to be exercised in expanding the capital programme any further, particularly on non-revenue generating assets.

## Government Grant Allocation

12. There is nothing new to report on the current Comprehensive Spending Review (CSR) as the Department for Communities and Local Government (DCLG) has indicated that the settlement already notified for 2010/11 will be honoured. Members will already be aware from previous papers that our initial pleasure at the outcome of the "Four Block" method of allocation was turned to dismay when the model was subject to an "update and fine tune" for the current CSR. For ease of reference the table showing the outcomes of the model over its five year life is given below.

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Relative Needs Amount	5.728	5.742	5.455	5.457	5.464
Relative Resource Amount	-4.465	-4.724	-5.228	-5.096	-4.956
Central Allocation	7.854	8.332	8.793	8.834	8.871
Floor Damping	-0.490	-0.189	0.302	0.173	0.036
<b>Formula Grant</b>	<b>8.627</b>	<b>9.161</b>	<b>9.322</b>	<b>9.368</b>	<b>9.415</b>

13. The figures shown above represent a poor settlement for the Council and give grant increases of only 1% (against the adjusted 07/08 figure) for 2008/09 and only 0.5% for 2009/10 and 2010/11. This seems odd given the sizeable grant increase seen under this system for 2006/07 and 2007/08.

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Formula Grant (adjusted)	8.627	9.161 (9.229)	9.322	9.368	9.415
Increase £	0.711	0.534	0.093	0.046	0.047
Increase %	9.0%	6.2%	1.0%	0.5%	0.5%

14. The introduction of the four block system saw the Council change from receiving floor support of £412,000 to losing £490,000 to support the floor for others. It had been hoped that the move away from the floor would last longer than two years. However, the benefit of the previous large increase has not been lost, as this has provided the base that the floor increase of 1% has been added to.

#### Continuing Services Budget

15. The CSB saving against revised estimate was £0.187m, compared to £0.585m in 2007/08. The prime cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £19.1m compared against an original estimate of £19.4m. Current indications are that the underspend on salaries in 2009/10 will reduce as some of the posts that have been difficult to recruit to, such as the Assistant Director vacancies in Planning, have now been filled.

16. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Distributable NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have previously indicated that future council tax increases should not exceed 2.5% for the near future, it is clear that the former will be the determinant. The four-year forecast, agreed in February, includes these assumptions. The link between council tax increases and the rate of inflation was replaced with the 2.5% guideline last year. For information, RPI is currently -1.4% and CPI 1.8% and inflation forecasts retain an important role in estimating future costs.

17. The latest four-year forecast (annexes 1a & b) show that the original budget for 2009/10 did not achieve that objective, as funding from Government grants and local Taxpayers fell £0.7m below CSB. The revised estimate for this year shows no change in CSB at this time although that is likely to change as we go through the budget process.

#### The Next Comprehensive Spending Review

18. It was noted above that the Government have said the grant settlement for 2010/11 will be honoured. The very big question is how the winners of next year's general election will go about achieving the necessary improvements in the state of the overall public finances. It has been well documented that the bail out of the financial sector and effective nationalising

of some of the countries largest banks has put an unprecedented strain on the public finances. Every month as the Government borrowing figures are announced they establish new records and it is clear that the current position is not sustainable.

19. Whilst the banking sector has now stabilised it is likely to still be several years before a full return to private ownership is possible. This means solutions must be found in other areas and there are already suggestions that an incoming Government will need to cut big programmes such as identity cards and the replacement of Trident. However, the size of the problem makes it inevitable that local government will have to share some of the pain. Best estimates are that grant will fall 10% over the next CSR with the reduction in the first year likely to be 5%. This means in 2011/12 grant is likely to reduce by £471,000 and over the three year CSR grant support could fall by £1m. These are estimates based on the public pronouncements of the parties to date and the ultimate reductions may of course be very different.

#### The “Credit Crunch” and Reduced Housing Market Activity

20. The Council’s CSB contains a number of income streams that have been adversely affected, to varying degrees, by the current state of the housing market. Recent surveys have been inconclusive, although some indicate house prices are starting to rise and new mortgage approvals are increasing from a very low base. The Government have provided kick start funding to a number of housing projects, including the Parade Ground development at North Weald. Although while banks remain cautious with mortgage funding and developers wait for better rates of return any recovery in the housing market is likely to remain fragile.

21. The main areas of income related to the housing market are land charges, building control and development control. For 2009/10 land charges income had been estimated at £150,000, consistent with the actual of £146,000 for 2008/09 but a long way from the 2006/07 figure of £394,000. At the end of August the income achieved was slightly ahead of the estimate, with the last three months showing an improvement after a slow start in April and May. Building Control fees may fall short of the estimate of £642,000 by as much as £150,000. This is despite changes to the fee structure and further steps will be necessary to address the state of the Building Control ring-fenced account. To date Development Control income is doing marginally better, mostly due to the fee for the St Johns School development, although the outturn here is likely to be closer to £500,000 than the £605,000 originally estimated.

22. Moving briefly off of housing market related income it is worth noting that some of the Council’s other income streams are doing well. The MOT income from Fleet Operations may exceed the estimate of £225,000 by £80,000. Total licensing income is also currently slightly ahead of expectations and should exceed the estimate of £252,000.

23. All of the above income streams will continue to be monitored on a monthly basis. Adjustments have previously been made to CSB income levels and no further reductions are planned at this time, although some extra allowance may be needed in the DDF.

24. One beneficial effect of the “Credit Crunch” had been the higher interest rates in 2008/09 that banks have been prepared to pay to borrow from the Council. It was evident that this would not continue for long and so £334,000 of investment income was credited to the DDF in 2008/09 instead of the CSB. Investment income this year is behind the estimate as interest rates have fallen lower than anticipated and seem set to remain at 0.5% for months to come. The outturn is likely to be £400,000 short of the original estimate of £2.1m, although a large portion of this is credited to the HRA. The Medium Term Financial Strategy (MTFS) has taken a prudent view on future interest rate movements, based on advice from the Council’s treasury management consultants.

### Use of capital resources on non-revenue generating assets

25. In recent years the Capital Strategy has stressed the need for capital projects to be used to improve the Council's revenue position, either by saving costs or increasing revenues. This issue has also been recognised on the Council's Corporate Risk Register. Capital receipts generate investment income and so if they are used up on non-revenue generating assets there is a "double whammy" whereby the Council loses out on income and takes on additional costs.

26. The updated Capital Programme will go to Cabinet this month and the figures show spending of £48.5m over five years. Of this spending, £35m is funded from revenue or grants but the remainder will reduce the balance of capital receipts from £24.3m to £10.9m. In view of this Members should carefully consider whether existing schemes are essential and any additional schemes should only be approved where there is a positive revenue contribution, after allowing for any loss of investment income.

### Pay Awards for 2009/10 and Subsequent Years

27. In previous years the pay award has been used as a generic term taken to cover all staff. There are actually a number of separate negotiating bodies, although they do usually reach similar agreements. Negotiations have again been protracted and have resulted in a settlement of 1.25% for the lowest paid staff (scale points 4 to 10) and 1% for most other staff (scale point 11 up to and including Assistant Directors). A settlement is still to be agreed by the bodies representing Directors and Chief Executives, following a 0% offer from the employer's body.

28. Against the backdrop of the negotiations it is worth considering this Council's pay bill and the effect that different levels of pay awards might have. The total salary estimate for 2009/10 is £20m; therefore for every 1% the pay award increases the Council's pay bill by £200,000. The annual pay bill is one of the key parts of the Council's overall estimates and so the assumptions made about pay awards are particularly significant. In the current economic climate with the overall public finances in a poor state it is difficult to envisage pay awards exceeding 1.5% for the foreseeable future, although if inflation starts to increase this assumption may not prove correct.

### Next Triennial Valuation of the Pension Scheme

29. The Local Government Pension Scheme (LGPS) is an umbrella term for a number of schemes across the country, most commonly administered at a county level. Most local government bodies in Essex pay contributions into the fund administered by Essex County Council. The level of contributions is based on an actuarial evaluation of the fund's assets and liabilities at a given date. These valuations are conducted on a triennial basis, with annual interim valuations being used only to update the annual accounts.

30. The last triennial valuation was undertaken as at 31 March 2007 and showed a significant improvement on the 2004 valuation. As at 31 March 2004 the scheme was only 71% funded (the value of the scheme's assets only covered 71.4% of the liabilities), by 2007 the funding level had improved to 81.2%. This meant that it was possible to reduce the amount of the deficit contributions but due to other factors, such as increasing life expectancy, it was necessary to increase the ongoing contribution rate from 10.1% for 2007/08 to 13.1% for 2010/11.

31. Recently share prices have rallied and the FT100 share index has gone back above the 5,000 level. This is encouraging but is still 18% below where the index was at the last scheme valuation date. As approximately 70% of the schemes assets are invested in shares, unless there is a further substantial increase in the index before 31 March 2010 it is likely that the valuation will show an increase in the overall deficit.

32. A number of changes have been made to the LGPS, with increased contribution rates for employees and a rising of the normal retirement age. Further options for reform are currently being examined and it is possible that in the long term the defined benefit scheme could be closed to new entrants or pensions could be based on average earnings instead of final salary. There is a general acceptance that the scheme in its current form is not sustainable, although at this time it is not possible to predict the outcome of these discussions or the triennial valuation with any certainty.

Capitalisation of Pension Deficit Payments

33. As part of the budget setting process for 2009/10 Members decided to continue with the policy of seeking annual capitalisation directions for pension deficit payments. There are strict financial criteria laid down by the Government that you must satisfy to be eligible for a capitalisation direction. If you satisfy the criteria you get a Gate 1 approval but it is only after the Government has considered all Gate 1 approvals in aggregate that it decides the amount of Gate 2 or final approvals.

34. Since the capitalisation policy was put in place the Council has generally been successful in obtaining directions. A direction was first applied for in 2005/06 and one was obtained for the full amount requested. It was in 2006/07 that the Two Gate System was introduced and that year saw all applicants receive directions for only 57% of the amounts applied for. In both 2007/08 and 2008/09 the Government has issued directions for the full amounts applied for.

35. The amounts that will be applied for are set out in the table below and given recent history it has been assumed that full directions will be obtained. To fund the capitalisations £2.5m was moved to the Pension Deficit Reserve in 2007/08. If this assumption proves incorrect any amounts that cannot be capitalised will have to be charged to revenue.

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>General Fund</b>	<b>662</b>	<b>644</b>	<b>626</b>	<b>1,932</b>
<b>HRA</b>	<b>311</b>	<b>302</b>	<b>294</b>	<b>907</b>
	<b>973</b>	<b>946</b>	<b>920</b>	<b>2,839</b>

National Concessionary Fares Scheme

36. With effect from 1 April 2008 the countywide concessionary fare scheme ended and a new national scheme began. The national scheme allows pass holders to travel free on local bus services anywhere in England. District Councils payments for the previous schemes were largely determined by the number of passes issued to the residents of their district. Under the national scheme districts are required to pay for all journeys by pass holders in their district regardless of where the pass was issued. The Government has acknowledged that the national scheme will be more expensive and has provided specific grants to support these costs. The Local Government Association has argued that these grants are inadequate, particularly for districts that attract high numbers of visitors for purposes such as tourism or shopping.

37. In Essex, the Districts and the County Council have worked together to achieve a transfer of the duties and risks associated with being travel concession authorities. A Participation Agreement was approved by Cabinet on 9 March 2009, under which Essex County Council took over the administration of the scheme from the districts. The serious potential impact of the national scheme has been highlighted previously in budget reports. As the scheme is demand led there was concern that districts were receiving limited funding from the Government but were being required to provide a blank cheque for the bus operators.

38. Concerns were also expressed by the bus operators that districts would try to impose unreasonable reimbursement schemes that would fail to comply with the requirement to ensure that the bus operators were no worse off for participating in the scheme. The concerns of the operators led many of them to register appeals against the reimbursement scheme that was originally proposed within Essex.

39. The transfer removed a substantial financial risk from this authority and places it with Essex County Council for 2009/10 and 2010/11. Beyond 2010/11 there is a risk that the general removal of this function from districts and the associated re-working of the grant formula could adversely impact on the Council's overall financial position. It is also worth reminding Members that not all of the appeals raised by the bus operators have been settled and further costs may still arise from these.

#### Customer Services Transformation Programme

40. A task and finish panel was established to consider how best to take forward the Customer Services Transformation Programme (CSTP). The findings of the panel were endorsed by the Overview and Scrutiny Committee on 11 December 2008 and a total of nine recommendations were put to Cabinet on 6 February 2009. At that time Cabinet were concerned that the full implementation of the recommendations would have increased budgetary requirements at a time when a clear need for savings had been identified. Consequently the matter was referred back to the task and finish panel with a request that they prioritise their recommendations.

41. No CSB or DDF amounts have been programmed for this initiative but some £2.1m of expenditure is still included in the capital programme. It may be necessary to re-schedule the capital expenditure as £0.5m is in the programme for 2009/10. It is unlikely that the Council will have received the Panel's amended recommendations and determined the way forward in sufficient time for the project to commence before the end of the current financial year.

#### District Development Fund

42. The carry forward of £280,000 represents a reduction of nearly £200,000 on the £469,000 of slippage for 2007/08. This is a further improvement on the reduction seen last year and illustrates how the requirement to explain slippage has helped improve forecasting. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions may arise over whether it was really a priority and if that money could have been used for a more urgent purpose.

43. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is currently anticipated that there will be some £492,000 of DDF available at 1 April 2014.

#### The Capital Programme

44. The total of 7 Council house sales in 2008/09 was in line with the estimate and it is not anticipated that sales will return to their previous levels for some time. This is consistent with the four completions so far in the first five months of 2009/10. The Capital Programme has already been adjusted to reflect this anticipated lower level of Council house sales.

45. Significant receipts have previously been generated through the sale of other assets. Land values have fallen substantially from their peak and Cabinet has generally decided against marketing further surplus land until market conditions have improved. As non-housing receipts are not included in the estimates before completion has occurred no adjustment to the MTFs is necessary.

46. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 15 June 2009 highlighted that the underspend of £2.4m was similar to



the £1.7m under spend in 2007/08. Non-housing expenditure was £0.95m below the estimate at £2.02m, whilst housing expenditure of £8.45m was £1.47m below the estimate of £9.93m. The slippage in the programme will be carried forward to subsequent periods.

### The Council Tax

47. Band D Council Tax increases were 3.5% for 2007/08, 2.5% for 2008/09 and 2.5% for 2009/10. Members have indicated that future increases should not exceed 2.5%. Current 4-year forecasts are based on ongoing increases of 2.5% p.a., which should not fall foul of the capping criteria. However, Members will need to indicate whether they are in agreement with this assumption as it is a fundamental component to setting the budgetary framework for the Authority.

48. The financial position that the Council now finds itself in is more challenging than last year. A prudent view was taken on the CSB reductions in significant income streams and adequate allowance was made for the enhancements to the waste management service. However, the degree of uncertainty about the future health of the economy in general and the public finances in particular provide a difficult environment for financial forecasting.

49. Given the desire of Members to remain a low tax authority and not increase the burden on tax payers in the recession, it has been assumed that the target for Council Tax increases will remain 2.5%. Therefore no alternative forecast has been prepared, although if Members wish to see one a model could be produced with Council Tax increases set at 4% or 5%. Members will be able to consider these issues and others in consultation with the Finance and Performance Management Scrutiny Panel over the next few months.

### A Revised Medium Term Financial Strategy

50. Annexes 1(a&b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £300,000 in 2010/11, increasing to £600,000 in 2011/12 before reducing to £400,000 for 2012/13 and £200,000 for 2013/14. These savings would give total CSB figures for 2009/10 revised of £18.015m and 2010/11 of £18.319m.

51. This proposal sets DDF expenditure at £1.54m for the revised 2009/10 and £0.82m for 2010/11, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

52. No predicted non-housing capital receipts are being taken into account, as no sales are likely to progress in the current economic climate. Over the period of the MTFs the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £24.3m at 1 April 2009 to £10.9m at 1 April 2014. This has impacted on interest earnings within the forecast and it is important that any new capital schemes either save revenue costs or generate income.

53. The Key Lines of Enquiry used as part of the Audit Commission's Use of Resources assessment have been updated. Previously the Council was required to take steps to communicate the Medium Term Financial Strategy with staff, partners and other stakeholders. This process is still seen as good practice under the revised assessment criteria and a failure to repeat the exercise could harm subsequent scores. If Members agree, appropriate steps can be taken to circulate either the full strategy or a summarised version.

### Conclusion

54. The current level of uncertainty on future government grant, the ongoing effects of the "Credit Crunch" and the next valuation of the pension scheme makes it difficult to produce robust financial forecasts. Although the Council is better placed than most to face these challenges, at 1 April 2009 the General Fund balance exceeded £8m, the DDF £3m and

capital receipts £24m. These balances can be used over the medium term to support a structured reduction in net expenditure and it is clear that Members will need to make tough decisions in prioritising the allocation of resources. Any further growth bids will need to be rigorously considered and the need to seek net savings now far exceeds any possible contribution from “efficiencies”.

**Resource Implications:**

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

**Legal and Governance Implications:**

None.

**Safer, Cleaner, Greener Implications:**

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

**Consultation Undertaken:**

None.

**Background Papers:**

None.

**Impact Assessments:**

No equalities impacts.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although particular care needs to be exercised in taking on any additional capital projects.

## GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

ORIGINAL 2009/10	REVISED				
	FORECAST 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
£'000 NET REVENUE EXPENDITURE	£'000	£'000	£'000	£'000	£'000
17,416 Continuing Services Budget	17,416	18,517	18,255	17,750	17,469
599 CSB - Growth Items	599	102	33	0	0
0 Net saving	0	-300	-600	-400	-200
<b>18,015 Total C.S.B</b>	<b>18,015</b>	<b>18,319</b>	<b>17,688</b>	<b>17,350</b>	<b>17,269</b>
1,236 One - off Expenditure	1,541	819	270	0	0
<b>19,251 Total Net Operating Expenditure</b>	<b>19,556</b>	<b>19,138</b>	<b>17,958</b>	<b>17,350</b>	<b>17,269</b>
-1,236 Contribution to/from (-) DDF Balances	-1,541	-819	-270	0	0
-704 Contribution to/from (-) Balances	-704	-761	-396	-117	5
<b>17,311 Net Budget Requirement</b>	<b>17,311</b>	<b>17,558</b>	<b>17,292</b>	<b>17,233</b>	<b>17,274</b>
<b>FINANCING</b>					
9,195 Government Support (NNDR+RSG)	9,195	9,379	-5% 8,944	-3% 8,676	-2% 8,502
173 RSG Floor Gains/(-Losses)	173	36	0	0	0
<b>9,368 Total External Funding</b>	<b>9,368</b>	<b>9,415</b>	<b>8,944</b>	<b>8,676</b>	<b>8,502</b>
7,943 District Precept	7,943	8,143	8,348	8,558	8,772
0 Collection Fund Adjustment	0	0	0	0	0
<b>To be met from Government 17,311 Grants and Local Tax Payers</b>	<b>17,311</b>	<b>17,558</b>	<b>17,292</b>	<b>17,233</b>	<b>17,274</b>
Band D Council Tax	146.61	150.30	154.08	157.95	161.91
<b>Percentage Increase %</b>		2.5	2.5	2.5	2.5

## GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

	REVISED FORECAST 2009/10	FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14
<b>REVENUE BALANCES</b>	£'000	£'000	£'000	£'000	£'000
Balance B/forward	8,189	7,485	6,724	6,328	6,211
Surplus/Deficit(-) for year	-704	-761	-396	-117	5
Balance C/Forward	7,485	6,724	6,328	6,211	6,216
<b>DISTRICT DEVELOPMENT FUND</b>					
Balance B/forward	3,122	1,581	762	492	492
Transfer Out	-1,541	-819	-270	0	0
Balance C/Forward	1,581	762	492	492	492
<b>CAPITAL FUND (inc Cap Receipts)</b>					
Balance B/forward	24,319	19,325	14,288	12,284	11,507
New Usable Receipts	346	273	273	273	273
CR Used to Fund Capital Expenditure					
- Transitional Relief Receipts	0	0	0	0	0
- Other Capital Receipts	-5,340	-5,310	-2,277	-1,050	-850
Balance C/Forward	19,325	14,288	12,284	11,507	10,930
<b>TOTAL BALANCES</b>	28,391	21,774	19,104	18,210	17,638