Epping Forest District Council

# *FINANCE AND PERFORMANCE MANAGEMENT CABINET COMMITTEE*
## *Thursday, 14th July, 2016*

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| **Place:** | Committee Room 1, Civic Offices, High Street, Epping |
| **Room:** | Committee Room 1 |
| **Time:** | 7.00 pm |
| **Democratic Services Officer** | R. Perrin Tel: (01992) 564532<br>Email: democraticservices@eppingforestdc.gov.uk |

Members:

Councillors G Mohindra (Chairman), S Stavrou, A Lion, C Whitbread and R Bassett

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**1. APOLOGIES FOR ABSENCE**

**2. DECLARATIONS OF INTEREST**

(Director of Governance) To declare interests in any item on this agenda.

**3. MINUTES (Pages 3 - 14)**

To confirm the minutes of the meeting of the Committee held on 16 June 2016 (attached).

**4. FINANCIAL ISSUES PAPER (Pages 15 - 30)**

(Director of Resources) To consider the attached report (FPM-006-2016/17).

**5. ANY OTHER BUSINESS**

Section 100B(4)(b) of the Local Government Act 1972, requires 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.

**6. EXCLUSION OF PUBLIC AND PRESS**

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

Act (as amended) or are confidential under Section 100(A)(2):

| Agenda Item No | Subject | Exempt Information Paragraph Number |
|---|---|---|
| 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.

**Background Papers:** Article 17 - 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 and in respect of executive reports, the advice of any political advisor.

The Council will make available for public inspection for four years after the date of the meeting one copy of each of the documents on the list of background papers.

# EPPING FOREST DISTRICT COUNCIL
# COMMITTEE MINUTES

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| **Committee:** | Finance and Performance Management Cabinet Committee | **Date:** | Thursday, 16 June 2016 |
| **Place:** | Council Chamber, Civic Offices, High Street, Epping | **Time:** | 7.00 - 8.10 pm |

**Members Present:** Councillors G Mohindra (Chairman), A Lion, C Whitbread and R Bassett

**Other Councillors:**

**Apologies:** S Stavrou

**Officers Present:** R Palmer (Director of Resources), P Maddock (Assistant Director (Accountancy)), D Bailey (Head of Transformation) and R Perrin (Democratic Services Officer)

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**1. Declarations of Interest**

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

**2. Minutes**

**RESOLVED:**

That the minutes of the meeting held on 17 March 2016 be taken as read and signed by the Chairman as a correct record.

**3. Tribute MP Jo Cox**

The Chairman advised the Cabinet Committee that the MP for Batley and Spen, Jo Cox had been tragically killed in her constituency.

Members noted that Councillors and Staff, which could come into contact with the public, should be more vigilant. Councillor C Whitbread asked that the safety of people dealing with the public should be included within the consideration of the Transformation project and new reception area.

**4. Any Other Business**

**RESOLVED:**

(1) That, as agreed by the Leader of the Council and in accordance with Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules, the following items of urgent business be considered following publication of the agenda:

(a) 4(a) Provisional Revenue Outturn 2015/16.

This item would be discussed after item 8 Provisional Capital Outturn 2015/16.

## 5. Key Performance Indicators - 2015/16 Quarter 4 (Outturn) Performance

The Director of Resources presented a report on the outturn performance for the Key Performance Indicators adopted for 2015/16.

The Director of Resources advised that the Council was required to make arrangements to secure continuous improvement in the way in which its functions and services were exercised, whilst having regard to a combination of economy, efficiency and effectiveness. As part of the duty to secure continuous improvement, a range of Key Performance Indicators (KPI) relevant to the Council's service priorities and key objectives were adopted each year and the performance was reviewed on a quarterly basis.

A range of thirty-six Key Performance Indicators (KPI) had been adopted for 2015/16 in March 2015 and the KPIs were important to the improvement of the Council's services, comprised a combination of former statutory indicators and locally determined performance measures. The aim of the KPIs was to direct improvement towards services, the national priorities and local challenges arising from the social, economic and environmental context of the District. Progress in respect to all of the KPIs was reviewed by Management Board and Overview and Scrutiny at the conclusion of each quarter and service Directors reviewed the KPI performance with the relevant Portfolio Holder(s) on an on-going basis throughout the year. The Select Committees were each responsible for the review of quarterly performance against specific KPIs within their areas of responsibility.

The position with regard to the achievement of target performance for the KPIs at the end of the year (31 March 2016) was as follows:

(a) 27 (75%) indicators achieved the cumulative end of year target;
(b) 9 (25%) indicators had not achieve the cumulative end of year target; and
(c) 1 (3%) of those KPIs had performed within the agreed tolerance for the indicator.

The outturn performance against the indicator set for 2015/16 had been slightly better than last year when 26 (72%) of the 36 indicators achieved the target.

The Director of Resources advised that KPI RES001, Sickness Absence had not achieved the year-end target but had improved by a day compared to the previous year.

Councillor G Mohindra advised that he was concerned about the KPI GOV007, Appeals – officers, which required improvement.

**RESOLVED:**

(1) That the Committee noted the Quarter 4 performance for the Key Performance Indicators adopted for 2015/16.

**Reasons for Decision:**

The KPIs provided an opportunity for the Council to focus attention on how specific areas for improvement would be addressed, and how opportunities would be exploited and better outcomes delivered. It was important that relevant performance management processes were in place to review and monitor performance against the key objectives, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of slippage or under performance.

**Other Options Considered and Rejected:**

No other options were appropriate in this respect. Failure to review and monitor performance could mean that opportunities for improvement were lost and might of had a negative implications for judgements made about the progress of the Council.

## 6. Invest to Save Proposals

The Director of Resources presented a report on 3 Invest to Save Proposals for capital works at North Weald Airfield for a vehicle compound extension, the Civic Office main reception structural survey for the Customer Contact project and software prototype and evaluation for project management.

The Director of Resources advised that in setting the budget for 2015/16, the Council had decided that because the balance on the General Fund Reserve had exceeded the minimum requirement and further savings were required, £0.5 million would be transferred from the General Fund Reserve into an Invest to Save earmarked reserve. This would be then used to finance schemes that would reduce the Continuing Services Budget (CSB) in future years. There was nearly £200,000 available for additional schemes after the budget had been approved in 2016/17

The accommodation review and the replacement of NEPP for off street car parking enforcement had already been put forward and these three business cases which included;

1. Capital works at North Weald Airfield which involved extending a vehicle compound for approximately £12,000, would gain a rental income of £4,000 per annum and result in a three year payback. It was possible that further income could arise from leasing some spare office accommodation to the same company;

2. A structural survey of the current main reception area for approximately £15,000, which was a necessary complementary piece of work for the accommodation review and would inform the discussion around potential re-configuration of and alternative uses for the site; and

3. A programme management system for prototype activities, which sought funding of £6,000, which would ensure that inconsistent project management would not occur and the improved efficiency and effectiveness would save the Council time and money.

Councillor Bassett raised concerns over the length of leases with regards to the future Master Plan for the Council's estates and this impacting on future developments. The Director of Resources advised that this could be taken into account with break clauses, although he would make sure that the Estates Department were advised.

The Cabinet Committee asked that they were updated on the progress of Invest to Save projects on a 6 monthly basis from when they were approved at Cabinet.

**RECOMMENDED:**

(1) That the proposal to invest in the North Weald Airfield 240 compound extension, Civic Office Main Reception – Structural Survey Customer Contact Project and Software prototype and evaluation (Establishment of Programme and Project Management be recommended to Cabinet;

**RESOLVED:**

(2) That Members were updated on the progress and financial outcomes of the Invest to Schemes that were approved by Cabinet after 6 months.

**Reasons for Decisions:**

To seek Member approval for Invest to Save proposals before implementation.

**Other Options Considered and Rejected:**

Members may decide not to support the proposals and suggest additional or alternative uses for the Invest to Save Fund.

## 7. Risk Management - Corporate Risk Register

The Director of Resources presented a report regarding the Council's Corporate Risk Register.

The Corporate Risk Register had been considered by both the Risk Management Group on 26 May 2016 and Management Board on 1 June 2016. These reviews identified minor amendments to the Corporate Risk Register which included the following;

(a) Risk 1 Local Plan

The key date had been updated to advise of the intended July 2016 Cabinet report.

(b) Risk 2 Strategic Sites

The Effectiveness of controls/actions had been amended to include the updated position for the key sites, with work progressing well at the Winston Churchill site, progress on the St. Johns site being delayed by Essex County Council and three tenders being received and assessed for the Retail Park at the Langston Road site. The completion of the site was now anticipated in the summer of 2017 and completion of the Oakwood Hill was expected in June 2016.

(c) Risk 6 Data / Information

The Effectiveness of Control had been amended to advise that there had been no data losses within 2016/17.

**RESOLVED:**

1. That the Key Date within the Action Plan for Risk 1 be updated;

2. That the Effectiveness of controls/actions for Risk 2 be updated;

3. That the Effectiveness of control/actions for Risk 6 be updated;

**RECOMMENDED:**

4. That the amended Corporate Risk Register be recommended to Cabinet for approval.

**Reasons for Decisions:**

It was essential that the Corporate Risk Register was regularly reviewed and kept up to date.

**Other Options Considered and Rejected:**

Members may suggest new risks for inclusion or changes to the scoring of existing risks.

## 8. Provisional Capital Outturn 2015/16

The Assistant Director (Accountancy) advised the Cabinet Committee that the report set out the Council's capital programme for 2015/16, in terms of expenditure and financing, and compared the provisional outturn figures with the revised estimates. The revised estimates which were based on the Capital Programme represented those adopted by the Council on 18 February 2016.

The Council's total investment on capital schemes and capital funded schemes in 2015/16 was £37,298,000 compared to a revised estimate of £49,917,000 and represented an underspend of 25%. The largest underspends were experienced on General Fund projects, in particular on the planned developments at St John's Road, the Langston Road Retail Park and the Oakwood Hill Depot.

The Director of Resources advised that the funds available to finance capital programmes were applied in line with any restrictions avoid the potential loss of funds. Another element of capital receipts known as 'attributable' or 'allowable' debt could be used to fund either General Fund or HRA expenditure in any proportion.

The previous decision to use 30% for housebuilding had been decided by the Housebuilding Cabinet Committee, although the Cabinet may not have had the opportunity to fully consider other options at that time and the latest 30 year plan suggested £869,000 would be available for replacement housing schemes. An alternative approach would be to take 30% of the assumed debt figure of £1,218,950 as a basis for ascertaining the amount to be used for housebuilding and this would make £366,000 available.

Currently, none of these resources had been applied to the housebuilding programme as 1-4-1 capital receipts, capital grants and private contributions were applied in the first instance and they had been sufficient to cover all costs to date. Hence a change to the alternative approach was recommended to liberate additional capital resources of £503,000 to be invested in General Fund schemes.

The use of capital receipts to finance expenditure was £2,672,000 higher than estimated and the year-end balance on the Capital Receipts Reserve had fallen to £3,790,000 as at 31 March 2016. All of this balance had been set aside for the Council's housebuilding programme. Due to all the capital receipts currently available to fund General Fund schemes, being fully utilised, internal borrowing had been made available from the HRA. In total, the General Fund had borrowed around £4,000,000 from the HRA and would be required to pay interest on the sum for the duration of the loan. The internal borrowing had been made on a temporary basis only and future borrowing requirements would continue to be monitored closely.

In summary, the Cabinet Committee were requested to recommend to Cabinet the approval of the budget overspends, savings, carry forwards and brought forwards. There was one General Fund budget saving of £7,000 on Revenue Expenditure financed from Capital under Statute and two areas where spending was higher than estimated totaling £160,000 on the HRA, which were proposed to be brought forward from 2016/17. The carry forwards requested total £9,227,000 on the General Fund; £3,698,000 on the HRA capital programme; £41,000 on Capital loans and £83,000 on REFCuS. The Cabinet Committee was also asked to approve the other amendments of £37,000 on the General Fund and £229,000 on REFCuS.

With regards to the use of direct revenue funding, the HRA contribution of £4,900,000 was in line with the revised budget. However, the use of funds from the Major Repairs Reserve was £3,097,000 lower than estimated reflecting the underspend on HRA capital schemes. The impact of this off-set was that the balance on the Major Repairs Reserve was £2,896,000 higher than expected at £11,997,000 as at 31 March 2016.

**RESOLVED:**

(1) That the provisional outturn report for 2015/16 be noted;

**RECOMMENDED:**

(2) That retrospective approval for the over and underspends in 2015/16 on certain capital schemes as identified in the report be recommended to Cabinet;

(3) That approval for the carry forward of unspent capital estimates into 2016/17 relating to schemes on which slippage occurred be recommended to Cabinet;

(4) That approval of the funding proposals outlined in the report in respect of the capital programme in 2015/16 be recommended to Cabinet;

(5) That the in principle decision to meet a funding requirement for the purchase of street properties in 2016/17 from HRA underspends in 2015/16 be recommended to Cabinet; and

(6) That an amendment to the position regarding the use of the attribute debt element of the retained capital receipts as set out in the report be recommended to Cabinet.

**Reasons for Decision:**

The funding approvals requested were intended to make best use of the Council's capital resources that were available to finance the Capital Programme.

**Other Options Considered and Rejected:**

The Council's current policy was to use all HRA capital receipts from the sale of assets, other than Right to Buy Council House sales, to fund the Council's house building programme. However, Members had the option to use these capital receipts for other HRA or General Fund schemes if they chose. This option had been rejected to date because, unless HRA receipts were applied to affordable housing schemes, 50% of each receipt would be subject to pooling i.e. the council would have had to pay 50% of the receipts to central government.

The Council retained an element of the right to buy receipts classified as 'allowable' debt. It had been agreed that 30% of this receipt should be set aside to help finance the HRA housebuilding programme; this represented a sum of £869,000 as at 31 March 2016. However, none of this sum had been utilised to date and the Council was reconsidering this position.

**9. Provisional Revenue Outturn 2015/16.**

The Assistant Director Accountancy provided an overall summary of the revenue outturn for the financial year 2015/16.

The net expenditure for 2015/16 totalled £16.204 million, which was £2,856,000 (21.5%) above the original estimate and £435,000 (3%) above the revised. The large movement between Original and Revised was due to including some revenue funding of capital expenditure which had reduced the General Fund balance down to £7.3 million from £9.3 million. It had been felt sensible to use some of the balance because in recent years there had been Central Government criticism of Local Authorities holding "excessive" reserves. There were improvements in the funding position as this had shown an increase of £879,000 when compared to the original position and £88,000 compared to the revised position, which had been due to the inclusion of additional business rates Section 31 income. The in year deficit on the business rates collection fund was approximately £27,000 and the main factor which had created this had been the provision to cover future rating appeals.

The Continuing Services Budget (CSB) expenditure was £283,000 below the original estimate and £407,000 higher than the revised. Variances had arisen on both the opening CSB and the in year figures. The opening CSB was £369,000 higher than the revised estimate and the in year figures £38,000 higher than the revised estimate. When measured against the Original Budget, salaries were underspent by £465,000 and the actual salary spending for the authority in total including agency costs was £20.802 million compared against an original estimate of £21.267 million. When comparing to the Revised Estimate there was an underspend of £302,000, half of which fell on the General Fund, though £72,000 of this was actually DDF or Building Control savings rather than CSB.

There was an additional amount of £215,000 added to the General Fund Bad & Doubtful debts provision as a number of uncollectable debts had been written off and Housing Benefit Overpayment debts outstanding at the year end had increased significantly from £2,382,000 to £2,723,000. The Housing Revenue Account (HRA) capital expenditure was underspent by some £3.5 million and this increased the interest payable to the HRA, contributing to an overall net reduction of £190,000 to the Genral Fund.

The main other movement between the Original estimate and the Revised and Actual position was that the decision to Fund Capital Expenditure of £3 million from the General Fund balance.

The original in year CSB savings figure of £573,000 became an in year savings figure of £634,000, which was primarily due to additional Development Control fee income of £55,000 and a couple of other more minor items with the in year savings falling short by £38,000. The two main areas were Non-HRA Rent Rebates £40,000 and the Waste Management Contract £18,000 and there were a number of minor items that offset these.

The net District Development Fund (DDF) expenditure was expected to be £1,129,000 in the original estimate and £949,000 in the revised estimate and actually showed net income of £143,000. This was £1,272,000 below the original and £1,092,000 below the revised. There were requests for carry forwards totalling £775,000 for one-off projects and a net underspend of £317,000. The DDF reduced between the Original and Revised position by £180,000, which overall was not significant but there were some large swings on both income and expenditure. The Income side relatied to Development Control £220,000, Land Charges new burdens £103,000, a dividend following the liquidation of the former waste management contractor, South Herts Waste Management £100,000 and additional income from the technical agreement with major precptors £119,000. Offsetting this were the amounts brought forward from 2014/15 for the Local Plan £185,000 and Assets Rationalistion £85,000.

The difference between the revised position and the outturn position was a reduction of £1,092,000 and around half of this related to income from the Recycling Reward Scheme £268,000 and further income relating to the aforementioned technical agreement. It had been proposed that £100,000 of the latter be used to create a transformation project budget and £154,000 be used to top up the Invest to Save Reserve. The main items making up the remaining £570,000 were £139,000 relating to Local Plan slippage, £82,000 to Asset rationalisation, £73,000 to the planned maintenance programme, £62,000 to Electoral registration and £43,000 to town centre support.

The expenditure for the Invest to Save Reserve was estimated at £87,000 and the actual being £75,000, with the underspend relating to investigating the withdrawal from the NEPP contract. It had been recommended for the transformation budget that for projects to proceed quickly but with appropriate oversight, the DDF budget would be established under the control of Management Board and subject to consultation with the Leader. Additional funds had already been allocated from the Invest to save Reserve in 2016/17 and to ensure money remained available for suitable projects the proposed top up to the fund was required.

A Surplus within the HRA of £60,000 and deficit of £83,000, which had been expected within its original and revised revenue budgets respectively, the actual outturn, was a surplus of £633,000. There had been savings on Revenue Expenditure of £520,000 when compared to the revised position and these included salary savings due to vacancies in a number of areas amounting to around £150,000, savings on professional and consultancy fees £86,000, gas and electricity £79,000, various communal services £63,000, Grounds Maintenance £63,000, rent collection costs £20,000, furniture and equipment at sheltered units £17,000 and Corporate Core contribution £11,000. Income from Dwelling Rents had been down by £139,000 although other income was up through interest received on capital and revenue balances by around £300,000. The depreciation charge relating to HRA assets was £346,000 higher than expected but the difference was reversed back to the HRA and formed the bulk of the remainder of the £681,000 underspend shown. The current financial year was likely to be more difficult for the HRA with the 1% rent reduction coming in and the potential effects of the forced sale of high value voids, the detail of which has yet to be decided.

**RESOLVED:**

(1) That the provisional 2015/16 revenue out-turn for the General Fund and Housing Revenue Account (HRA) be noted; and

(2) That as detailed in Appendix E, the carry forward of £775,000 District Development Fund and £12,000 Invest to Save Reserve expenditure be noted.

**RECOMMENDED:**

(3) That the additional unbudgeted income of £254,000 from the agreement with the major preceptors to create a District Development Fund budget of £100,000 for transformation projects and to top up the Invest to Save Fund be recommended to Cabinet; and;

(4) That the transformation projects only being funded from the transformation budget following approval by Management Board and in consultation with the Leader be recommended to Cabinet.

**Reasons for Decision:**

To ensure adequate funding going forward for both transformation and invest to save projects.

**Other options Considered and Rejected:**

Members could decide to use the unbudgeted income to further increase the balance on the DDF and not to provide additional funding for transformation and invest to save projects. However, this would slow progress on transformation and necessitate reports to Cabinet and Council for supplementary funding for relatively small amounts of money.

**CHAIRMAN**

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## DISTRICT DEVELOPMENT FUND 2014/15 - 2015/16

| Directorate | Description | C/Fwd £000's | Year of Approval |
|---|---|---|---|
| **Communities** | Landlord Accreditation Scheme | 1 | 2015 |
| | Analysts post | 23 | 2016 |
| | | **24** | |
| **Governance** | Document Scanning | 11 | 2014 |
| | Individual Registration Costs | 62 | 2015 |
| | Contingency for Appeals | (3) | 2016 |
| | | **70** | |
| **Neighbourhoods** | Town Centres Support | 42 | 2015 |
| | Council Asset Rationalisation | 82 | 2015 |
| | Local Plan | 139 | 2015 |
| | Food Safety Inspections | 4 | 2015 |
| | Neighbourhood Planning | 9 | 2016 |
| | Payment to NEPP for redundancies | 20 | 2015 |
| | Survey of River Roding errosion | 15 | 2015 |
| | Replacement Bins | (43) | 2015 |
| | DCLG Recycling Reward Scheme | 268 | 2016 |
| | Salary Savings to fund restructure | 30 | 2016 |
| | | **566** | |
| **Resources** | Implementation of E-Invoicing | 3 | 2015 |
| | Planned Building Maintenance Programme | 73 | 2016 |
| | Local Council Tax New Burdens Expenditure - Mobile Workin | 0 | 2016 |
| | Benefits Specific Grants - Online Forms | 17 | 2016 |
| | Benefits Specific Grants - Furniture | 2 | 2016 |
| | Emergency Premises Works | 5 | 2015 |
| | Temporary Additional Staffing | 15 | 2015 |
| | | **115** | |
| | **Total** | **775** | |

## INVEST TO SAVE RESERVE 2014/15 - 2015/16

| | | | |
|---|---|---|---|
| **Neighbourhoods** | Termination of contract with NEPP ( R ) | 11 | 2016 |
| **Resources** | Ariel Camera System ( R ) | 1 | 2016 |
| | Total | **12** | |

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# Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

## Report Reference: FPM-006-2016/17
## Date of meeting: 14 July 2016

**Portfolio:** Finance

**Subject:** Financial Issues Paper/Efficiency Plan

**Responsible Officer:** Bob Palmer (01992) 564279)
**Democratic Services Officer:** Rebecca Perrin (01992) 564532)

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**Recommendations/Decisions Required:**

**1. To recommend to the Cabinet the continuance of the budgetary framework approved by Council in February, including guidelines for 2017/18 covering:**

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

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

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

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

**2. To recommend to the Cabinet the agreement of the updated Medium Term Financial Strategy for the period to 2019/20, and the communication of the Medium Term Financial Strategy to staff, partners and other stakeholders.**

**3. To recommend to the Cabinet reductions in parish support grants in equal stages to achieve their complete removal by 2019/20.**

**4. To recommend to the Cabinet acceptance of the Government's offer of a four-year funding settlement,**

**Executive Summary:**

This report provides a framework for the Budget 2017/18 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

- Central Government Funding
- Business Rates Retention
- Welfare Reform
- New Homes Bonus
- Development Opportunities
- Transformation
- Waste and Leisure Contracts
- Miscellaneous, including recession/income streams and pension valuation

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 2017/18.

**Reasons for Proposed Decisions:**

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

**Other Options for Action:**

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

**Report:**

<u>Brexit</u>

1. We find ourselves in extraordinary times and before moving on to the usual parts of this financial update report it is necessary to comment on the effect that the referendum has already had and the impacts it is likely to have going forward. Normally by four months after our budget setting we have significant additional information and new legislation and regulations that require an update to the Medium Term Financial Strategy (MTFS). This year Westminster politicians and the civil service appear to have been paralysed and so we know nothing more now than we did in February about changes to New Homes Bonus, the 100% retention of business rates or the financial contribution we will be required to make to support right to buy for housing association tenants. Given this position there was little point updating the MTFS for anything other than the 2015/16 outturn so the attached MTFS is very similar to the one approved in February.

2. The consequences arising from Brexit can be split between the financial and the political. Dealing first with the financial, prior to the vote the Chancellor of the Exchequer stated that a decision to leave the EU would trigger an emergency budget with higher taxes and lower public spending. With the resignation of the Prime Minister we will have to wait for the autumn for the new occupants of numbers 10 and 11 Downing Street to deliver any changes to the budget. Even those campaigning to leave the EU acknowledged that in the short to medium term at least there would be a reduction in economic growth. It will be for the Office for Budget Responsibility to say how much smaller they think the economy will now be than they had previously predicted. Any reductions in actual and forecast economic growth will require further action on the public finances, which could be higher taxes, lower spending or more borrowing. It is likely that the solution will be a combination of the three alternatives and that will inevitably lead to further reductions in funding for local authorities.

3. The political consequences have already been significant for both the Conservatives and Labour and the political uncertainty that now exists will only serve to worsen the economic issues. I have already mentioned the delays in providing legislation and with politicians and civil servants pre-occupied with the terms of our EU exit we may see further delays in other legislation coming forwards. Compared to our future relationship with the EU issues such as devolution, the New Homes Bonus and reforming the system of local authority financing will not be priorities. The uncertainty and delay around these issues could be further compounded if we have an early General Election. A different government or even just different ministers may have different views on policies such as devolution or universal credit.

4. It will be many years before we can fully evaluate the effects of Brexit but what we can

say at the moment is that for local government it has increased political uncertainty and reduced funding prospects.

General Fund Outturn 2015/16

5. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2015/16 is currently being audited so some amendments may still be made to the outturn figures. In summary the General Fund Revenue outturn for 2015/16 shows that Continuing Service Budget (CSB) expenditure was £283,000 below the original estimate and £407,000 higher than the revised. The single largest variance was an increase of £215,000 in the bad debt provision, largely caused by the higher level of outstanding housing benefit overpayment debts.

6. The revised CSB estimate for 2015/16 decreased from £13.909m to £13.280m with the actual being £13.649m. The main in year changes related to the inclusion of the New Homes Bonus (£252k) and higher income from off street parking (£180k) and development control (£55k) but these were offset to a degree by the increase in the costs of dealing with homelessness, as reflected in the non-HRA rent rebates (£69k). Other savings were seen on the waste management contract (£48k) the discontinuance of the Forester (£44k) and changes to the duty officers out of hours service (£36k). The only other cost increase worth mentioning is the £23,000 reduction in administration subsidy receivable from the Department for Work and Pensions.

7. Net DDF expenditure was £1,092,000 lower than the revised estimate. However £775,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2016/17, giving a net underspend of £317,000. Two directorates had variances between their revised and actual DDF spending of more than £300,000. The largest variance was £613,000 on Neighbourhoods, of which £268,000 is money received from the DCLG to pursue recycling initiatives and £139,000 relates to work on the Local Plan. In Resources there was an underspend of £368,000, which includes £73,000 for building maintenance but the main amount was extra income of £254,000 from the technical agreement with the major preceptors. Governance had an underspend of £89,000, with the largest single item being £62,000 for individual registration.

8. There were no significant variances on the non-directorate items within the DDF. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £3.742m at 31 March 2016. However, most of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan.

9. 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 consists of the CSB overspend and the variance on the use of reserves to fund capital expenditure. This translates into a reduction in balances of £2.021m compared to the revised estimate of a decrease of £1.674m. Although it must be remembered that this deficit only arises due to the charging of £3.151m of capital expenditure to revenue. If the capital expenditure had been financed differently there could have been a surplus of £1.130m adding to the General Fund revenue balance.

The Updated Medium Term Financial Strategy

10. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2015/16 actuals but as very little additional information has become available since February no other changes have been made. The annex (1b) shows that revenue balances will reduce by £36,000 in 2016/17 and then further in subsequent years by £345,000 in 2017/18, £31,000 in 2018/19 before reducing by £3,000 in 2019/20.

11. 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 2017 of £7.236m represents nearly 57% of the anticipated NBR for next year (£12.762m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2020 the revenue balance will have reduced to £6.857m. This still represents 55% of the NBR for 2019/2020 (£12.447m).

12. The financial position as at 1 April 2016 was not significantly different from what had been anticipated, reflecting the success of the cost control measures put in place. The robustness of the revenue account is highlighted by the underlying surplus for 2015/16 of £1.130m mentioned above.

13. The target saving for 2017/18 has been left at the original level of £250,000. This is followed by targets of £150,000 for 2018/19, and £100,000 for 2019/20. These net savings could arise either from reductions in expenditure or increases in income. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

14. Estimated DDF expenditure has been amended for carry forwards and it is anticipated that there will be £1.3m of DDF funds available at 1 April 2020. The four-year forecast approved by Council on 18 February 2016 predicted a DDF balance of £978,000 at the end of 2019/20.

15. Capital balances have been updated for recent outturn figures and it is not anticipated that there will be any unallocated capital receipts available in future. With the continued efforts to become self-financing, assisted by the certainty of the four year settlement, through revenue generating capital schemes it is inevitable that some borrowing will be required during 2016/17. We will seek to keep borrowing to a minimum through the use of reserves to fund capital expenditure where appropriate.

Continuing Services Budget

16. The CSB overspend against revised estimate was £0.407m, compared to a £0.223m overspend in 2014/15. Within the overall overspend there was the usual small saving on the salaries budget. The salaries budget in total is approximately £20.8m and the General Fund CSB underspend was approximately £80,000. It is anticipated that not all posts will be filled throughout the year so a vacancy allowance of 1.5% is included in the estimates to reflect this.

17. There is currently an under spend on the salaries budget in 2016/17 and this is expected to continue so the vacancy allowance will be reviewed and increased if appropriate. The aggregate overspend this year arose largely from one off factors with a larger than anticipated increase in the bad debt provision and a greater share of interest earnings going to the HRA than the General Fund.

18. 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 + Retained NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have not indicated any desire to significantly increase the council tax, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that Council Tax would not increase over the life of the MTFS.

19. The updated four-year forecast (annexes 1a & b) show that the original budget for 2016/17 missed that objective, as funding from Government Grants and Local Taxpayers was £36,000 below CSB. However, given the overall position and the strength of the Council's reserves this is not a significant problem.

Central Government Funding

20. The position is unchanged from February but that would normally be the case, particularly as the settlement included draft figures out to 2019/20. For background the section from the budget report is repeated below.

21. The draft figures supplied immediately before Christmas set out the now familiar Settlement Funding Assessment (SFA) and also introduced the new concept of Core Spending Power. This means it is necessary to provide two comparative tables below to illustrate the reductions in funding. The first table deals with the SFA.

| | **2015/16 £m** | **2016/17 £m** | **2017/18 £m** | **2018/19 £m** | **2019/20 £m** |
|---|---|---|---|---|---|
| Revenue Support Grant | 2.45 | 1.53 | 0.74 | 0.26 | -0.28 |
| Retained Business Rates | 3.02 | 3.05 | 3.11 | 3.20 | 3.30 |
| **SFA** | **5.47** | **4.58** | **3.85** | **3.46** | **3.02** |
| Decrease £ | | 0.89 | 0.73 | 0.39 | 0.44 |
| Decrease % | | 16.3% | 15.9% | 10.1.% | 12.7% |

22. This paints a rather bleak picture for the next four years with the SFA reducing over the period by £2.45m or nearly 45%. There has been a lot of talk about full retention of business rates but the reality in the draft figures is disappointing. The table above shows our retained business rate funding increasing from £3.02m in 2015/16 to £3.30m in 2019/20, an increase of £0.28m or 9.3%. During this time the tariff we pay to the Treasury increases by a similar percentage from £10.23m to £11.17m. This lack of any relative improvement in the balance between retention and tariff is disappointing. However, on top of this because our retained business rates exceeds our SFA in 2019/20 we are penalised with an additional tariff that I have shown in the table above as negative Revenue Support Grant. This is a worrying new addition and a disincentive to local authorities to devote resources to economic development.

23. The concept of Core Spending Power is another addition to the draft settlement and is useful in setting out Government thinking on Council Tax and the New Homes Bonus.

| | **2015/16 £m** | **2016/17 £m** | **2017/18 £m** | **2018/19 £m** | **2019/20 £m** |
|---|---|---|---|---|---|
| SFA | 5.47 | 4.58 | 3.85 | 3.46 | 3.02 |
| Council Tax | 7.6 | 7.8 | 8.0 | 8.3 | 8.5 |
| New Homes Bonus | 2.1 | 2.7 | 2.7 | 1.7 | 1.6 |
| **Core Spending Power** | **15.17** | **15.08** | **14.55** | **13.46** | **13.12** |
| Decrease £ | | 0.09 | 0.53 | 1.09 | 0.34 |
| Decrease % | | 0.6% | 3.5% | 7.5% | 2.5% |

24. The overall funding reductions across the period using Core Spending Power (CSP) are much lower, with a fall of £2.05m or 13.5%. This seems far more palatable but there are questions on how realistic the assumptions are that support the Council Tax and New Homes Bonus figures. There is a separate section later on the New Homes Bonus but at this point it is worth looking at the Council Tax as the draft settlement marked a significant change in Government policy on the Council Tax.

25. In recent years we have included an assumed increase in the Council Tax when updating the MTFS that is presented with the Financial Issues Paper. Later in the process when the Government has offered a freeze grant it has been possible to drop the Council Tax increase and replace it with the freeze grant. The policy of providing additional grant to limit increases in Council Tax is now over. As we have already seen above with our Revenue Support Grant turning negative the Government now wants to remove grants from the funding system and wants local authorities to fund themselves from Council Tax and retained business rates. The draft settlement states that the figures shown above for Council Tax are increased by 1.75%

per annum throughout the period, although it is evident that significant increases have been assumed in the taxbase as well to get to the overall increases.

| | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|---|---|---|---|---|---|
| Starting Council Tax | 7.6 | 7.6 | 7.8 | 8.0 | 8.3 |
| Increase of 1.75% | n/a | 0.133 | 0.1365 | 0.140 | 0.145 |
| Increase in Taxbase | n/a | 0.067 | 0.0635 | 0.160 | 0.055 |
| **Assumed Council Tax** | **7.6** | **7.8** | **8.0** | **8.3** | **8.5** |
| Increase £ | | 0.2 | 0.2 | 0.3 | 0.2 |
| Increase % | | 2.6% | 2.6% | 3.75% | 2.4% |

26. As we have not increased the Council Tax since 2010/11, the increases we have seen in overall income from the Council Tax have come from increases in the taxbase. For 2016/17 if we assume no change in Council Tax charge the overall income would increase by £157,919, for 2015/16 the amount was £76,900 and for 2014/15 £75,902. Alternatively this can be looked at in percentage terms and this shows an increase in the taxbase for 2016/17 of just over 2% and for 2015/16 and 2014/15 of just over 1%. In view of this pattern of growth in the taxbase the assumptions used look reasonable.

27. In updating the MTFS it has been assumed that Members will not want to increase the Council Tax while the General Fund balance remains comfortably above the minimum requirement. There is unlikely to be flexibility to increase Council Tax by more than the assumed 1.75% as the 2016/17 settlement maintained the referendum limit at 2%.

28. As part of abolishing Council Tax Benefit and introducing Local Council Tax Support the DCLG had to determine whether parish councils would be affected by the reduction in council tax base or left outside the calculations. Despite the consultation responses on the scheme being massively in favour of tax base adjustments only at district level the DCLG decided that parish councils should also be affected. One of the problems with that decision was that DCLG does not have a legal power to make grant payments direct to parish councils. This meant the funding for these councils had to be included in the grants to districts and it was then for districts to determine how much of the grant was passed on. Members determined for 2013/14 that parish councils should be fully protected, a decision not shared by many authorities across the country. This meant that the figure notionally relating to parishes of £312,812 was topped up with an additional £7,460 to £320,272.

29. We do not have separate figures now for Local Council Tax Support or a detailed split between the district and the parishes. In previous years the support to the parishes has been reduced by the same percentage as the grant has reduced. By 2019/20 we will no longer receive any grant and so we need to reduce parish support to zero by this time as well. The level of support in 2016/17 is £201,249 and it is recommended to reduce the support in equal amounts so £134,166 is paid in 2017/18 and £67,083 in 2018/19 followed by no support in 2019/20. An alternative approach would be to continue with reductions reflecting the annual percentage change in grant but this would create much steeper cuts with support falling to £97,405 in 2017/18 and £50,651 in 2018/19. These amounts need to be seen in the light of the total parish precepts for 2016/17 being over £3.27m. It should also be remembered that parishes are not subject to capping and are free to determine the increase in their precept.

30. One piece of new information since February that we need to consider is the option to accept the 4-year figures set out in the table under paragraph 21 above. Previously when figures for multi-year settlements have been announced the figures for later years have been issued on a purely indicative basis. In a letter issued by the Secretary of State for Communities and Local Government on 10 March local authorities were given the opportunity to accept these 4-year figures as fixed. This offer will have to be accepted before 14 October and confirmation of acceptance would need to be accompanied by an efficiency plan showing "how this greater certainty can bring about opportunities for further savings".

31. Accepting the 4-year offer would provide greater certainty for planning purposes. However, the letter was accompanied by an annex which said the Government would “need to take account of future events” and that the offer would be honoured “barring exceptional circumstances”. It is possible that recent events may be seen as exceptional and may inhibit the ability of the Government to honour this offer, but we are unlikely to know this before the deadline for acceptance in mid-October.

32. The letter also contains a note of caution for authorities that do not take up the option, “It is open to any council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement”. This implies that if further reductions are needed in local government funding they would be likely to fall most heavily on the authorities that choose to keep their funding on a year-by-year basis. Given that it is extremely unlikely that additional funds will be made available for local authorities in the next four years there seems nothing to be gained from opting for annual settlements and potentially a lot to lose.

Business Rates Retention

33. We are now into the fourth year of business rates retention and it is evident that DCLG have under estimated the Council’s income from business rates. This is illustrated in the table below.

| | **2013/14 £m** | **2014/15 £m** | **2015/16 £m** | **2016/17 £m** | **2017/18 £m** | **2018/19 £m** | **2019/20 £m** |
|---|---|---|---|---|---|---|---|
| DCLG | 2.91 | 2.97 | 3.02 | 3.05 | 3.11 | 3.20 | 3.30 |
| Actual/Est. | 2.97 | 3.64 | 4.40 | 4.38 | 4.30 | 4.35 | 4.45 |
| **Surplus** | **0.06** | **0.67** | **1.38** | **1.33** | **1.19** | **1.15** | **1.15** |
| Levy | 0.03 | 0.34 | 0.24 | tbc | tbc | tbc | tbc |

34. For both 2013/14 and 2014/15 as the Council was not in a business rates pool we had to pay over half of the income above the DCLG estimate as a levy, in addition to the tariff that had already been paid. This meant payments for these years of £28,000 and £335,000 in addition to the tariff payments of £9.85m and £10.04m. As the Council is in a business rates pool for 2015/16 and 2016/17 no levy should be payable to the Treasury. However, for 2015/16 two of the pool members required safety net funding and so £238,000 was lost to the internal pool levy to support these authorities. Despite this levy the Council was still better off for pooling by £118,000.

35. The table above illustrates that the rate of growth in business rate income has been far higher than DCLG estimated. Part of this divergence may have been caused by the number of adjustments to the scheme after it was constructed. These include the extension of small business rate relief, the capping of increases and the introduction of retail rate relief. As all of these adjustments reduce the bills that Councils would have issued compensation is paid under what is known as Section 31 grant. This has become so significant now that for 2015/16 revised and 2016/17 it was shown separately in the MTFS. In 2014/15 the Council received over £0.75m in Section 31 grant, this was anticipated to reduce to £0.7m in 2015/16 and £0.4m in 2016/17 due to retail relief coming to an end.

36. Whilst the amounts included in the MTFS exceed those calculated by DCLG they are still felt to be prudent. There is very little growth anticipated after 2015/16 despite the building of the retail park and other known likely developments within the district.

37. One of the theories for why many authorities have seen income in excess of the DCLG estimates is that the DCLG allowed amounts in their calculations for losses on appeal. This is plausible but seems strangely generous and out of character. Calculating an appropriate provision for appeals remains extremely difficult as there are over 400 appeals still

outstanding with the Valuation Office. Each appeal will have arisen from different circumstances and it is difficult to produce a uniform percentage to apply. This is a particular concern as there is one property in the south of the district which has a rateable value approaching £6 million and is currently being appealed. If a full provision was included in our calculations for the owners of this property being completely successful in their appeal there would be a significant shortfall.

38. Based on previous experience and discussions with the Valuation Office a provision has been calculated that is felt to be prudent, but given the size of the financial risk here it is worth mentioning the potential problem. The total provision against appeals is currently close to £4m.

39. Where losses arise on the Collection Fund due to appeals being settled they are accounted for in the General Fund in subsequent periods. In the MTFS this is shown together with any loss or surplus on the Council Tax in the Collection Fund Adjustment line. When combined, the outturn figures for the Collection Fund for 2015/16 were less than £30,000 different to the estimates included in the MTFS, which is a very small variance considering the value of transactions through the Collection fund every year exceeds £110m. So at this point there is no need to amend the MTFS for any unexpected trends on the Collection Fund.

40. The announcement of 100% local retention of business rates was widely welcomed but there are a couple of popular misconceptions to correct. Firstly, 100% retention will not mean an increase in the business rate income we have to spend from £3.3m to £33m. What it actually means is that 100% will be retained within local government and no amounts of either base funding or growth will be paid over to the Treasury. The second myth is that 100% retention will solve funding problems for the local government sector. It has been made clear by the Government that the policy will be fiscally neutral, which means any additional funding will be matched by a transfer of additional responsibilities that have previously been centrally funded. This may not be a good thing as any new responsibilities are likely to be demand led and so will increase if we find ourselves in a recession, which will be the time when business rates funding is reducing. This means that through the reform process local government as a whole will need to try and limit the amount of risk that is transferred and that some form of safety net is maintained.

41. The new system is meant to be in place by 2020/21 at the latest, DCLG had indicated a desire to achieve implementation by 2019/20 but this now looks unlikely. This process is being managed by a Steering Group and five working groups covering needs and redistribution, systems design, responsibilities, accounting and accountabilities and business interests. These groups are a mixture of people from local authorities, DCLG the Local Government Association and various business representative groups. The first of many consultations is expected in late summer and when it is issued it will be shared with this Committee.

<u>Welfare Reform</u>

42. When considering the scheme of Local Council Tax Support (LCTS) for 2016/17 it had been feared that reductions in tax credits would increase demand for LCTS. This was a particular concern as it was already predicted that the LCTS scheme would fall short of being self-financing in 2016/17. In order to try and limit the shortfall the scheme was changed significantly for the first time since its introduction with the maximum level of support being reduced from 80% to 75%. Now with no major reduction in tax credits and the introduction of the National Living Wage the trend of reductions in the LCTS caseload may continue and bring the scheme back closer to self-financing. No significant change is being proposed for 2017/18 to allow sufficient time to understand the consequences of the change for 2016/17.

43. It is worth taking this opportunity to mention one of the other welfare reforms. The Benefits Cap was introduced to limit the total amount of benefits a household could receive in a year to £26,000. The introduction of this cap did not have a dramatic impact across the

district. However, the reduction by £6,000 to £20,000 is likely to cause greater changes in people's behavior and working patterns. The lower cap will be phased in across the country during 2016/17 and early indications are that several hundred claimants in this district will be affected. As this will be a part year implementation, the effects of this change will be more evident in 2017/18 than 2016/17.

44. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit. Despite delays, confusion and critical reports from the National Audit Office the scheme still continues to progress (slowly). The main supporter of the project was Ian Duncan-Smith so it remains to be seen if the new Prime Minister and the new Minister at the DWP will still want to persevere with UC. For the moment, there is no clarity over the time period and process for the migration of our existing housing benefit claims to UC or the role local authorities will perform under the new system.

45. One other aspect of welfare reform that continues is the DWP achieving their savings through reducing the grant paid to local authorities to administer housing benefit. Following a relatively modest reduction of £22,000 in 2015/16 we have been advised that the reduction for 2016/17 will be £73,000, which is a cut of over 16%.

<u>New Homes Bonus</u>

46. The consultation on the proposed changes to NHB closed on 10 March 2016 but no information has yet emerged on the future policy direction in this area. It will be necessary to adjust future versions of the MTFS once the exact nature of the changes is known but for the moment in the absence of any better information I have not changed my assumptions and provide again the section from the budget paper below as a reminder.

47. The amount of NHB payable for a year is determined by the annual change in the total number of properties on the council tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average council tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. This Council has done relatively well from NHB and the amount the Council will receive for the first 6 years of NHB in 2016/17 is £2.7 million.

48. In last year's Financial Issues Paper I suggested that in view of possible changes to the scheme the amount taken to the CSB should be capped at £2.2m. As part of the draft settlement for 2016/17 the Government issued a technical consultation on NHB which is entitled "New Homes Bonus: Sharpening the Incentive". Whilst sharpening the incentive the various proposals are also aimed at reducing the cost by £800m, this is approximately 55% of the projected cost for 2016/17. In the paragraphs below I will set out each of the proposals in the consultation and state what assumption I have made in coming to the figures for NHB that are included in the MTFS.

49. The first proposal is to reduce the number of years that the bonus is payable for from 6 to 4. In what could be seen as an attempt to head off any protests about this the consultation also says another option would be to reduce the number of years to 3 or 2. In moving from 6 to 4 years alternative scenarios are provided of either an immediate reduction or a phased change with a reduction to 5 years in 2017/18 followed by the full reduction to 4 years in 2018/19. The figures provided for Core Spending Power (see para 23 above) indicate that the funding change is most likely to be phased so that is the assumption used for the MTFS and it has been assumed that payments will not reduce below 4 years.

50. The second proposal is to withhold NHB from authorities that have not got a Local Plan in place. Under this proposal authorities would not get any new NHB but would continue to get NHB relating to earlier years. A possible refinement mentioned is to give credit for progress

made. This could mean that an authority that has published a Local Plan but not yet submitted it to the Secretary of State would receive 50% of any new NHB. For the purpose of the MTFS I have assumed that some credit will be given for progress made and that is the position we will be in for 2017/18 before reverting to full entitlement in 2018/19.

51. The next proposal is to reduce the amount of NHB payable where planning permission has only been granted on appeal. Two alternative proposals are suggested with the size of the reduction being either 50% or 100%. This would appear to be what the Government means by sharpening the incentive, although it does not sit well with the concept that planning decisions should be made purely on planning issues. As there is a time lag between planning approval and homes being built it would be quite difficult to try and analyse how much of the NHB that we have received could be lost and in any case it is questionable how reliable such past data would be as a guide to new developments coming forward and whether they will get planning permission with or without appeal. Given this level of uncertainty I have made no adjustments to the MTFS for this possible change.

52. Another proposal aimed at improving the incentive is to remove the deadweight. This is an interesting turn of phrase that means building some baseline into the calculation so NHB is only payable on growth above what would normally happen anyway. This could be achieved through a general baseline of 0.25% or a more complex formula could be applied to each authority individually based on their previous growth. However, the Government does acknowledge the concern that in introducing a baseline it could reduce the significance of NHB for some authorities and have the perverse impact of eroding the incentive effect. Given the uncertainty about the implementation of this measure and the form it might take I have made no adjustments to the MTFS for it.

53. The final proposal is to protect authorities that are particularly adversely impacted by changes to NHB. No indication is given of an amount or percentage reduction that would qualify for help or how long such help might be phased over. Even though we may well qualify for some assistance, given the likely reduction of over £1m, to be prudent no additional support has been anticipated in the MTFS.

54. Having gone through the potential changes it is now appropriate to set out the cumulative effect below by comparing the MTFS projections with the Government's Core Spending Power figures.

| | **2016/17 £m** | **2017/18 £m** | **2018/19 £m** | **2019/20 £m** |
|---|---|---|---|---|
| NHB in Core Spending Power | 2.7 | 2.7 | 1.7 | 1.6 |
| NHB in MTFS | 2.7 | 2.2 | 1.4 | 1.6 |

55. The amounts are lower in 2017/18 and 2018/19 due to the assumed reduction of 50% for new NHB in 2017/18 due to the Local Plan still being work in progress. By 2019/20 the figure has improved as the relatively poor year of NHB due to lower than average growth in 2014/15 drops out of the calculation and is replaced by a year assumed to be closer to the average. The amounts that will be included in the CSB and DDF in the MTFS are set out below.

| | **2016/17 £m** | **2017/18 £m** | **2018/19 £m** | **2019/20 £m** |
|---|---|---|---|---|
| CSB | 2.1 | 2.1 | 1.6 | 1.6 |
| DDF | 0.6 | 0.1 | -0.2 | 0 |
| **NHB in MTFS** | **2.7** | **2.2** | **1.4** | **1.6** |
| Change in CSB | 0 | 0 | 0.5 | 0 |

Development Opportunities

56. There is a separate Cabinet Committee for co-ordinating asset management issues so I do not intend to devote too much space to developments. However, it is necessary to touch briefly on the number of opportunities that currently exist in the district and their potential benefits. This is particularly important given the increased significance of retained business rates.

57. There has been some slippage in the programme for the retail park, caused by a combination of delays by the highways department at Essex County Council (ECC) and the failure of the first attempt at securing a main building contractor. Later this month Cabinet will decide which building firm to award the main contract to and from that point there should be greater certainty about the opening date. It is anticipated that the construction cost of the retail park will not be significantly different from the amount included in the capital programme. Negotiations are also continuing with potential tenants and indications are that the projected rent levels should be achieved and the budgeted allowance for tenant incentives will not be exceeded.

58. Our professional advisers have stated that an annual rental income of £2.5m is achievable. The MTFS includes a prudent view, reducing this to £2m to allow for any shortfall, management costs and interest. No change in assumptions has been made at this stage as any changes now would inevitably require further amendment later for the better information on rent levels and the opening date.

59. Progress has been less encouraging with the mixed use re-development of the St Johns area in Epping. The land acquisition from ECC has taken much longer than anticipated and there is still no end in sight to this saga. It will be a considerable relief if it is finally possible to complete the purchase of their land. Other possibilities for Waltham Abbey and North Weald are also being evaluated.

60. The delays in progress on the development schemes meant it was possible to finance the capital programme in 2015/16 without any additional borrowing. However, this will not be possible for 2016/17 and going forward we will need a different way of thinking as capital will no longer be freely available and borrowing costs will need to be considered as part of any options appraisals.

Transformation

61. The Head of Transformation has now been in post for over 6 months and good progress has been seen on a number of initiatives. To keep Members informed an updating report is made to every meeting of the Cabinet. The key accommodation review is well underway and a report should come to Cabinet in the autumn to determine the future of the current civic office site. Strong progress has also been made with the work on customer contact and this has the potential to significantly change the structure and working practices of the Council.

62. Later in the budget cycle it will be necessary to consider the future of the staff working on transformation and the funding that is to be made available over the period of the MTFS. It is clear that if Members want to take forward the large scale initiatives on accommodation and customer contact some ongoing resource will be required.

63. As part of the revised estimates for 2014/15 Members created an Invest to Save budget of £0.5m. This fund is intended to finance schemes which can produce reductions to the net CSB requirement in future years. This fund has proved popular with Members and officers and the number of ideas generated has meant it has been necessary to allocate additional funding.

Waste and Leisure Contracts

64. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for waste and SLM for leisure. Following an extensive competitive dialogue procedure Biffa took over the waste contract in November 2014. The contract hand over and the first six months of the new service went well. However, in May 2015 the service was re-organised on a four day week basis and considerable difficulties were encountered. The service has now been stabilised with Biffa committing significant additional resources. The service was procured at a lower cost and the savings were included in the MTFS. Biffa are confident that they will be able to fulfil their obligations at the price they tendered and have indicated that the additional resources will stay in place until the transition is completed.

65. The leisure management contract was due to expire in January 2013 but an option was exercised that extended the contract for three years. A Leisure Strategy has been prepared and this included the intention to follow a similar route to the waste procurement with the use of competitive dialogue. It now appears unlikely that the new contract will be let before the extension of the old contract has expired so a negotiation will be needed to further extend the current contract. The MTFS had anticipated the new contract would commence during 2016/17 and includes CSB savings of £75,000 in 2016/17 and a further £175,000 in 2017/18. With the delay in commencing the new contract it appears that savings will not arise until 2017/18, although it is evident from the competitive dialogue that the savings are likely to exceed those currently allowed for. The size and timing of these savings will be kept under review as the budget develops.

Miscellaneous

66. In addition to the significant items mentioned above there are a number of other issues that need to be borne in mind. Firstly, the position in terms of the general economic cycle and the potential for a recession. The economy goes in cycles and, regardless of our position relative to the European Union, many economic commentators have been predicting that the current period of low but sustained growth was due to finish and that a recession is somewhat overdue. There is no point in speculating on the length and depth of a recession but we do need to be wary of the consequences of a slowdown in the economy. In any economic downturn property related income streams such as development control and rent from our commercial estate suffer. This reduction in income in a downturn will be magnified as the proportion of our income coming from retained business rates increases. Added to the reduction in income will be increased pressure on services with greater spending on benefits and homelessness. Clearly it is in no one's interests to talk down the economy and talk up a recession but in a paper highlighting financial issues it is a subject that cannot be ignored.

67. We are now in the last year of making pension contributions based on the March 2013 fund valuation. The scheme actuaries are currently working on the valuation for March 2016 and we will be consulted later in the year on a range of payment options for the next three years. In predicting the future position of the fund the actuary will have to take into account expected investment returns and the wider economic background. The most recent updates from the actuary were indicating an improvement in the funding position and consequently no significant increase in contributions. However, these were prior to the referendum and if the actuaries now assume lower investment returns they may recommend higher contributions to compensate. The funding options are usually given to scheme members in the autumn and a report will be brought to this Committee as soon as any figures are available.

DDF

68. The carry forward of £775,000 represents an increase of £200,000 on the £575,000 of slippage for 2014/15. The two largest carry forwards are the DCLG funding for recycling initiatives (£268,000) and the Local Plan (£139,000). The financial forecast shows that not all DDF funding is currently allocated to schemes, it indicates that approximately £1.3m of DDF

will be available at 1 April 2020. However, a financial update later this month to Cabinet on the Local Plan is likely to consume a significant portion of the fund.

The Capital Programme

69. The generation of capital receipts in 2015/16 was lower than had been anticipated. This was partly due to less council houses being sold. The Government boosted right to buy sales by increasing the discount that tenants can receive to £75,000 and this led to sales of 53 houses in 2013/14 and 46 in 2014/15. A reduction in sales was expected during 2015/16 but the actual sales figure of 20 was lower than had been budgeted.

70. It has already been stated above that the General Fund capital programme will continue as the main vehicle for putting the Council in a self-financing position and that in order to achieve this some borrowing will be necessary in 2016/17. The HRA capital programme will need a major review in 2016/17 to take account of the changes that will be introduced as secondary legislation following the Planning and Hosing Act. These changes will significantly reduce the resources available to the HRA and so it will be necessary to re-evaluate both the house building and maintenance programmes going forward.

71. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 16 June 2016 highlighted that the variance of £12.6m was a substantial increase on the previous year's figure of £3.9m. Non-housing expenditure was £9.2m below the estimate at £16.8m, whilst housing expenditure of £13.8m was £3.5m below the estimate of £17.3m. The slippage in the programme will be carried forward to subsequent periods as large amounts of it relate to the development schemes (£6m in respect of St Johns and £2.1m for the retail park).

An updated Medium Term Financial Strategy

72. For the reasons set out in the various sections above, the update to the MTFS has been limited to changes to reflect the outturn for 2015/16. 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 £250,000 for 2017/18, decreasing to £150,000 for 2018/19 and then £100,000 for 2019/20. These savings would give total CSB figures for 2017/18 of £13.107m and 2016/17 of £12.498m.

73. This proposal sets net DDF expenditure at £1.473m for 2016/17 and £259,000 for 2017/18, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

74. No predicted non-housing capital receipts are being taken into account, as any disposals are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund is used up entirely. As already stated above, this will be the first time capital resources are not freely available and a change in thinking is needed to ensure any capital proposals include borrowing costs.

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

The Council Tax

76. Even though the Government has now changed its position on Council Tax increases and is effectively encouraging them, it has been assumed that Members will wish to adhere to the established policy of not increasing the Council Tax throughout the period of the MTFS. This is something that can easily be revisited later in the budget process if we find ourselves in a significantly worse position than is currently envisaged.

Conclusion

77. The Council remains in a strong financial position as the overspend in 2015/16 was not significant. It is comforting at this time to have substantial reserves as the referendum has delivered greater political uncertainty and a higher level of financial risk.

78. We eagerly await a decision on who the next Prime Minister will be and then in turn who their choices will be for the key roles of Chancellor of the Exchequer and secretaries of state for Communities and Local Government and Work and Pensions. Some direction on policies covering, the reform of local government funding, devolution, New Homes Bonus and changes to the HRA would be very welcome but may be delayed by the work on negotiating our exit from the EU and our new trade deals with the rest of the world.

79. There is also great uncertainty over what the final settlement figures will be for all of the business rate appeals and whether pooling will continue to be a success. Other questions remain in service areas, such as the timing and size of the savings from the new leisure contract and what can be done to address the growing problem of homelessness.

80. For the moment we have to make prudent assumptions and look to see how we can best safeguard the Council's finances for the future. The updated MTFS sets out a programme of net savings that should be achievable and our financial strength allows us to look for the necessary savings over the medium term. This process will be assisted by having the Invest to Save fund to help with initial funding or investment, which should allow some more creative solutions to be developed.

## GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2015/16 - 2019/20

| ORIGINAL 2015/16 | | ACTUAL 2015/16 | FORECAST 2016/17 | FORECAST 2017/18 | FORECAST 2018/19 | FORECAST 2019/20 |
|---|---|---|---|---|---|---|
| £'000 | **NET REVENUE EXPENDITURE** | £'000 | £'000 | £'000 | £'000 | £'000 |
| 13,921 | Continuing Services Budget | 13,649 | 12,714 | 13,813 | 13,523 | 12,910 |
| 329 | CSB - Growth | 546 | 949 | 8 | 515 | 0 |
| -902 | CSB - Savings | -1,142 | -411 | -464 | -1,390 | -360 |
| 0 | Additional Savings Target | 0 | 0 | -250 | -150 | -100 |
| 13,348 | Total C.S.B | 13,053 | 13,252 | 13,107 | 12,498 | 12,450 |
| 1,129 | One - off Expenditure | 83 | 1,644 | 259 | 639 | 76 |
| 14,477 | Total Net Operating Expenditure | 13,136 | 14,896 | 13,366 | 13,137 | 12,526 |
| -2 | Contribution to/from (-) Other Res | -75 | -171 | 0 | 0 | 0 |
| -1,129 | Contribution to/from (-) DDF Balances | 143 | -1,473 | -259 | -639 | -76 |
| -42 | Contribution to/from (-) Balances | 979 | -36 | -345 | -31 | -3 |
| 13,304 | Net Budget Requirement | 14,183 | 13,216 | 12,762 | 12,467 | 12,447 |
| | **FINANCING** | | | | | |
| 2,204 | RSG-Parish Support Grant | 2,205 | 1,329 | 571 | 108 | -133 |
| 3,434 | District Non-Domestic Rates Precept | 3,616 | 3,982 | 4,300 | 4,350 | 4,450 |
| 0 | Section 31 Grant | 788 | 400 | 0 | 0 | 0 |
| 7,616 | District Council Tax Precept | 7,616 | 7,774 | 7,891 | 8,009 | 8,130 |
| 50 | Collection Fund Adjustment | -42 | -269 | 0 | 0 | 0 |
| 13,304 | To be met from Government Grants and Local Tax Payers | 14,183 | 13,216 | 12,762 | 12,467 | 12,447 |
| | Band D Council Tax | 148.77 | 148.77 | 148.77 | 148.77 | 148.77 |
| | **Percentage Increase %** | | 0 | 0 | 0 | 0 |

## GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2015/16 - 2019/20

| | ACTUAL 2015/16 | FORECAST 2016/17 | FORECAST 2017/18 | FORECAST 2018/19 | FORECAST 2019/20 |
|---|---|---|---|---|---|
| **REVENUE BALANCES** | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance B/forward | 9,293 | 7,272 | 7,236 | 6,891 | 6,860 |
| RCCO | -3,000 | 0 | 0 | 0 | 0 |
| Surplus/Deficit(-) for year | 979 | -36 | -345 | -31 | -3 |
| Balance C/Forward | 7,272 | 7,236 | 6,891 | 6,860 | 6,857 |
| **DISTRICT DEVELOPMENT FUND** | | | | | |
| Balance B/forward | 3,599 | 3,742 | 2,269 | 2,010 | 1,371 |
| Transfer Out | 143 | -1,473 | -259 | -639 | -76 |
| Balance C/Forward | 3,742 | 2,269 | 2,010 | 1,371 | 1,295 |
| **CAPITAL FUND (inc Cap Receipts)** | | | | | |
| Balance B/forward | 19,534 | 3,790 | 3,293 | 978 | -745 |
| New Usable Receipts | 3,301 | 7,695 | 2,733 | 2,769 | 2,806 |
| Use of Capital Receipts | -19,045 | -8,192 | -5,048 | -4,492 | -2,294 |
| Balance C/Forward | 3,790 | 3,293 | 978 | -745 | -233 |
| TOTAL BALANCES | 14,804 | 12,798 | 9,879 | 7,486 | 7,919 |