**INTRODUCTION AND EXPLANATORY FOREWORD**

## INTRODUCTION

It is a pleasure to be able to start this year's introduction with some positive comments about the new grant allocation system that was unveiled during the year. After three settlements under the previous system, the new system has been introduced to produce a two-year settlement for 2006/07 and 2007/08 with the intention of providing three-year settlements in the future.

Epping Forest District Council has received floor support for many years and in 2005/06 this was worth some £412,000 to the authority. This is a significant amount of funding and the continuation of floor support had been a major concern. As the Council has benefited from the formula changes it is now in a position of contributing to the floor to support others.

As the government no longer provides assumed national council tax or formula-spending share figures direct comparisons with previous years are extremely difficult. The position on comparability is made worse by the changes in responsibility and the additional spending due to changes like concessionary fares. The Government has attempted to provide an indication of relative changes by re-stating the 2005/06 figures on the new basis, see table below.

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

These substantial increases in grant and the certainty of a two-year settlement allow us to plan positively for subsequent financial years and I will return to this theme in the final section of the Foreword.

The Council's debt free status has again been rewarded in 2005/06, as debt free authorities have continued to benefit from transitional relief from the Government's pooling requirements for capital receipts. This benefit was worth £3.2 million in 2004/05, but reduced in 2005/06 to £1.6 million. In part this was due to a reduction in council house sales but also the percentage eligible for relief reduced from 75% to 50%. The final year of the scheme is 2006/07, when the percentage is reduced down to 25%.

The Consolidated Balance Sheet (Note 23, page 29) shows that the pensions liability for the Council has reduced in the year from £38.1 million to £35.1 million. The inclusion of this amount in the Balance Sheet shows the extent of the authorities liability if the pension fund was to close on 31 March 2006. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

The year-end position is generally better than was anticipated when the revised estimates were set. A predicted General Fund surplus of £329,000 has increased to £968,000, whilst the Housing Revenue Account has achieved a surplus some £357,000 better than the revised estimate. The next section provides more detail on both the revenue and capital outturn for the year.

SUMMARY OF OUTTURN

The following tables provide a summary review of net expenditure and financing for 2005/06.

General Fund

The table below summarises the revenue outturn for the General Fund and the consequential movement in balances for 2005/06.

| General Fund | Original Estimate £000 | Revised Estimate £000 | Actual Spend £000 | Variance from Original £000 | Variance from Revised £000 |
|---|---|---|---|---|---|
| **Net Expenditure after Adjustments** | **14,255** | **13,955** | **13,316** | **(939)** | **(639)** |
| **Government Grants and Local Taxation** | **14,284** | **14,284** | **14,284** | **-** | **-** |
| **(Contribution to) Balances** | **(29)** | **(329)** | **(968)** | **(939)** | **(639)** |
| **Opening Balances – 1/4/05** | **(5,488)** | **(5,488)** | **(5,488)** | **-** | **-** |
| **(Contribution to) Balances** | **(29)** | **(329)** | **(968)** | **(939)** | **(639)** |
| **Closing Balances – 31/3/06** | **(5,517)** | **(5,817)** | **(6,456)** | **(939)** | **(639)** |

Net expenditure for 2005/06 totalled £13.316 million, which was £939,000 (6.6%) below the original estimate and £639,000 (4.5%) below the revised. When compared to a gross expenditure budget of approximately £60 million, the variances can be restated as 1.6% and 1.1% respectively.

An analysis of the changes between Continuing Services Budget (CSB) and District Development Fund (DDF) expenditure illustrates where the main variances in revenue expenditure have occurred.

| General Fund | Original Estimate £000 | Revised Estimate £000 | Actual Spend £000 | Variance from Original £000 | Variance from Revised £000 |
|---|---|---|---|---|---|
| Opening CSB | 14,156 | 13,687 | 13,323 | (833) | (364) |
| In Year Growth | 495 | 808 | 701 | 206 | (107) |
| In Year Savings | (491) | (690) | (858) | (367) | (168) |
| **Total Continuing Services Budget** | **14,160** | **13,805** | **13,166** | **(994)** | **(639)** |
| DDF – Expenditure | 1,613 | 2,450 | 1,693 | 80 | (757) |
| DDF – One Off Savings | (691) | (2,235) | (2,188) | (1,497) | 47 |
| **Total DDF** | **922** | **215** | **(495)** | **(1,417)** | **(710)** |
| **Appropriations** | **(827)** | **(65)** | **645** | **1,472** | **710** |
| **Net Expenditure** | **14,255** | **13,955** | **13,316** | **(939)** | **(639)** |

Continuing Services Budget

CSB expenditure was £994,000 lower than the original estimate and £639,000 lower than the revised. The variances have arisen on both the opening CSB, £364,000 lower than the revised estimate and the in year figures, £275,000 lower than the revised estimate.

The savings on the opening CSB relate to staff savings due to vacancies. Actual salary spending for the authority in total, including agency costs, was some £18.8 million compared against an original estimate of £19.4 million. Other noteable savings included Non HRA Rent Rebates probably due to the work of the Homeless prevention officers and the Fresh Start Scheme. The increase to the Bad Debt provision was less than expected due to improved sundry debt collection. There were also a number of other areas where savings or extra income occurred such as Environmental Co-ordination, Youth Strategy and Depots.

The saving on the in year CSB arose in a number of areas. Court costs arising from the non payment of NNDR and Council Tax was higher than expected. There were savings over and above those anticipated on the leased car scheme. Recruiting staff after the ICT restructure has proved more difficult than expected and the charges from the County Council in relation to Land Charges work were not as high as expected.

District Development Fund

Net DDF expenditure was £1,417,000 below the original estimate and £710,000 below the revised. There are requests for carry forwards totalling £575,000 and therefore the variation actually equates to a £135,000 net under spend on the DDF items undertaken. These one-off projects are akin to capital, in that there is regular slippage and carry forward of budgetary provision. Therefore the only reasonable variance analysis that can be done is against the revised position.

The DDF increased between the Original and Revised position by some £388,000, this was due to a mixture of items brought forward from 2004/05 and new items identified during 2005/06. There were also three items of income to the General Fund totalling £1,095,000 which have then been credited to the DDF.

Four Portfolios saw underspends in excess of £100,000 on their DDF when compared to the revised estimate. Much of this is slippage, for example unspent Planning Delivery Grant and local plan work.

The crediting of additional income items and the large under spend mean the balance on the DDF has increased to £3 million. Although some of this is committed to financing the present programme there is some £1.02 million DDF monies that are at this time unallocated.

Appropriations

The only variation on appropriations arise from the under spend on the DDF.

## Housing Revenue Account

The table below summarises the revenue outturn for the Housing Revenue Account.

| Housing Revenue Account | Original Estimate £000 | Revised Estimate £000 | Actual Spend £000 | Variance from Original £000 | Variance from Revised £000 |
|---|---|---|---|---|---|
| Revenue Expenditure | 12,013 | 11,867 | 11,786 | (227) | (81) |
| HRA Subsidy Payable | 7,746 | 7,746 | 7,749 | 3 | 3 |
| Asset Rentals | 27,966 | 30,204 | 27,048 | (918) | (3,156) |
| **Total Expenditure** | **47,725** | **49,817** | **46,583** | **(1,142)** | **(3,234)** |
| Gross Dwelling Rents | 20,727 | 21,216 | 21,201 | (474) | 15 |
| Other Rents and Charges | 4,082 | 4,089 | 4,236 | (154) | (147) |
| **Total Income** | **24,809** | **25,305** | **25,437** | **(628)** | **(132)** |
| **Net Cost of Service** | **22,916** | **24,512** | **21,146** | **(1,770)** | **(3,366)** |
| Interest and Other Transfers | 1,536 | 1,474 | 1,560 | (24) | (86) |
| Reversal of Asset Rentals | 23,377 | 25,615 | 22,459 | 918 | 3,156 |
| **Net Operating Income** | **(1,997)** | **(2,577)** | **(2,873)** | **(876)** | **(296)** |
| **Appropriations** | | | | | |
| Capital Expenditure Charged to Revenue | 1,600 | 2,000 | 2,000 | 400 | - |
| Other | 154 | 169 | 108 | (46) | (61) |
| **Surplus for Year** | **(243)** | **(408)** | **(765)** | **(522)** | **(357)** |
| Opening Balance – 1/4/05 | (4,834) | (4,834) | (4,834) | - | - |
| Surplus for year | (243) | (408) | (765) | (522) | (357) |
| **Closing Balance – 31/3/06** | **(5,077)** | **(5,242)** | **(5,599)** | **(522)** | **(357)** |

The surplus within the HRA was £522,000 greater than its original revenue budget, and some £357,000 greater than the revised estimate. The main differences between the actual figures and the revised estimates were the additional income from other charges and interest of £233,000 and a saving on Management and Maintenance costs of £81,000. The latter relating in the main to employee related costs.

The asset rentals charged to the HRA and the associated "below the line" reversal are based on the value of the dwellings and as a result any change in dwelling values has a direct impact on these charges. The actual charge was some £1 million lower than the original estimate, and £3.2 million lower than the revised. However as can be seen above the variation has no net impact on the HRA.

Capital Outturn

The table below summarises the capital expenditure outturn and its financing for 2005/06.

| Capital Expenditure and Financing | Original Estimate £000 | Revised Estimate £000 | Actual Spend £000 | Variance from Original £000 | Variance from Revised £000 |
|---|---|---|---|---|---|
| Non-Housing | 4,495 | 2,691 | 2,431 | (2,064) | (260) |
| Housing | 9,911 | 8,049 | 7,106 | (2,805) | (943) |
| **Total Expenditure** | **14,406** | **10,740** | **9,537** | **(4,869)** | **(1,203)** |
| Grants | 842 | 564 | 727 | (115) | 163 |
| Capital Receipts | 6,692 | 3,512 | 4,075 | (2,617) | 563 |
| Revenue Contributions | 6,872 | 6,664 | 4,735 | (2,137) | (1,929) |
| **Total Financing** | **14,406** | **10,740** | **9,537** | **(4,869)** | **(1,203)** |

The table identifies a net underspend of £1,203,000, some of which has been established as genuine savings. However, the majority represents slippage and expenditure has therefore currently been re-phased into 2006/07. The main areas of slippage relate to ICT and traffic schemes, on the non-housing items, and structural schemes and non-cost reflective repairs, on the housing programme.

The number of Council house sales increased substantially in the last few months of the financial year, with the total of 40 exceeding the estimated number of sales by 10. This still represents a considerable reduction against previous years sales of 61 and 139, for 2004/05 and 2003/04 respectively. However, the prudent estimate of sales, and hence transitional receipts, meant the revenue contribution necessary to finance the programme was over estimated. There were no other significant receipts in the year, although the Parade Ground Site has been sold early in 2006/07.

THE FUTURE

In my introduction I mentioned the new grant allocation mechanism for 2006/07 and 2007/08 and the fact that this Council will benefit from the new system. Having a good two-year settlement allows us to look forward positively and plan for the medium term. However, the Government has now commenced a fresh Comprehensive Spending Review and there are likely to be further significant changes to the funding system, with all local authorities receiving three-year settlements from April 2008.

In launching the new mechanism the Government assured authorities that the system of floors and ceilings would continue as part of any future system. This was widely welcomed as the Government had previously stated that this system was not sustainable in the long term. Under the previous grant allocation system withdrawal of the floor would have cost this Council in excess of £400,000 p.a. Under the new system for grant allocation this Council no longer receives floor support but instead suffers a reduction in grant of £490,000 in 2006/07 and £189,000 in 2007/08 to support the floor for others. This loss of grant is regrettable and some have questioned the sense of changing allocation formulas and then limiting their effect by retaining floors and ceilings. However, the anxiety around what the next grant allocation system might bring in 2008/09 is reduced by knowing that the Council should at least get a floor increase on top of the increases for 2006/07 and 2007/08.

The next grant allocation system will be influenced by the outcome of the Lyons Review, which is considering reforming the Council Tax, returning National Non-Domestic Rates to local control and local income tax. A change that the Government has now backed away from is Council Tax re-banding, although this may surface again in the future.

The Council is in a challenging period of significant organisational change. During 2005/06 the Highways Agency reverted to Essex County Council and four leisure centres came under external management. The next major change to be addressed is the Customer Services Transformation Programme, with the possible provision of a customer contact centre. This will involve re-engineering a number of business processes to split front and back office roles and place the customer more clearly at the heart of the Council's activities.

On 22 March 2005 the Chancellor announced further changes to concessionary fares. A major change was introduced from 1 April 2006, so that older and disabled people will be able to travel free in their local areas, instead of at half fare. Rather than allowing this fundamental change to bed down and a detailed assessment of the additional costs to be undertaken before moving on additional changes have been announced. From 1 April 2008 the restriction on travel outside the district or scheme boundaries will be lifted so that people over 60 and the disabled will be able to travel free on any local bus across England.

Given the above, it is clear that whilst the General Fund revenue balances are higher than anticipated they still need careful management. The current policy stipulates that the balances should not go below 25% of net budget requirement. This would allow the balances to fall to approximately £4.36m if budget projections are to increase in line with expectations: the net budget requirement is expected to have reached £17.4m by 2009/10. The current balance stands at just under £6.5 million. As part of the budget setting process Members approved an updated four-year forecast for the General Fund that included deficit budgets from 2007/08 onwards to reduce balances in a controlled way.

Cabinet approved an updated five-year forecast for the Housing Revenue Account on 6 March 2006. Members agreed that HRA balances should be maintained within the range of £3 to £4 million, which is significantly lower than their current level of £5.59 million. In order to achieve the desired reduction additional revenue contributions to capital outlay have been planned. There is still a considerable capital programme for the HRA and the next four years will see a spend of nearly £25 million. It is anticipated that the financial strength of the HRA should allow the Decent Homes Standard to be achieved ahead of the Government target of 2010.

The four-year programme of non-housing capital investment totals £12.9 million. Civil Engineering and Maintenance has the largest programme, with some £5.3 million being spent. The other major projects in the programme include £2.5 million for the Customer Services Transformation Programme together with another £1.7 million for other IT projects, £2.9 million for the town centre enhancement scheme at Loughton Broadway and some £1.8 million for Bobbingworth Tip.

The Council continues to produce a four-year revenue and capital financial plan for both its General Fund and Housing Revenue Accounts. This enables the Members to set an annual budget within clear parameters set for the medium term. This process has served us well in the past and continues to ensure the Council remains in a sound financial position well placed to deal with the unforeseen in a considered and structured fashion.

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