

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Finance and Performance Management Cabinet Committee **Date:** Monday, 25 September 2006

Place: Civic Offices, High Street, Epping **Time:** 6.00 - 8.15 pm

Members Present: Councillors J Knapman (Chairman), S Metcalfe and C Whitbread

Other Councillors: Councillor D Jacobs

Apologies: Councillor Mrs D Collins

Officers Present: P Haywood (Joint Chief Executive), R Palmer (Head of Finance), J Gilbert (Head of Environmental Services), J Akerman (Chief Internal Auditor), P Maddock (Assistant Head of Finance), G Lunnun (Democratic Services Manager).

Also Present: P King and L Wishart (Audit Commission)(for minutes 19-23 inc.)

19. MINUTES

RESOLVED:

That the minutes of the meetings of the Committee held on 11 January 2006 and 17 July 2006 be taken as read and signed by the Chairman as a correct record.

20. DECLARATIONS OF INTEREST

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

21. MANAGEMENT REPRESENTATION LETTER

The Head of Finance reported that for several years the Audit Commission had required a management representation letter as part of the evidence gathered to support their Audit opinion. The 2005/06 Statement of Accounts had been audited in accordance with the new International Standards on Auditing which required that the committee charged with governance should formally acknowledge the management representation letter.

The Committee considered an explanation of the Audit Commission's requirements together with a draft management representation letter which had been based on a standard draft supplied by the Audit Commission.

RESOLVED:

That the draft management representation letter be approved and the Head of Finance be authorised to sign and submit the letter to the Audit Commission on behalf of the Council.

22. AUDIT OF ACCOUNTS - INTERNATIONAL STANDARDS ON AUDITING

P King reported that he was required by the Audit Commission's Statutory Code of Audit Practice for Local Government bodies to issue a report to those charged with governance summarising the conclusions of his audit work. He was also required by professional auditing standards to report on certain matters before he was able to give an opinion on the financial statements.

The Committee noted that the principal purposes of the report were:

- (a) to reach a mutual understanding of the scope of the audit and the respective responsibilities of the Auditor and the Committee;
- (b) to share information to assist both the Auditor and those charged with governance to fulfil their respective responsibilities; and
- (c) to provide the Committee with recommendations for improvement arising from the audit process.

P King reported that work on the financial statements was substantially complete although there were still some outstanding issues to be resolved. In particular, work on the Pension Fund had yet to be concluded. He advised that should any further matters arise in concluding the outstanding work that required reporting he would raise them with the Chairman of this Committee. Members noted that the standard of the draft accounts and supporting working papers were a significant improvement on the previous year. P King advised that, subject to the satisfactory conclusion on the outstanding work, he anticipated being able to issue an unqualified opinion by 30 September 2006.

P King reported that in order to assist the Committee in fulfilling its governance responsibilities, he was required to report adjusted misstatements where these were material. He pointed out a material misstatement that management had adjusted in relation to the Pension Fund. The omission of the March Pension Fund gain from the actuarial valuation of the fund had moved the position from an actuarial loss for the year of £1,121,000 to an actuarial gain for the year of £1,215,000. This had reduced the pension liability on the balance sheet and the negative pension reserve from £37,389,000 to £35,053,000 with corresponding amendments to the relevant notes to the balance sheet. He advised that the initial figures had been provided by Essex County Council based on the actuarial valuation supplied by the County Council's actuary. The District Council had been notified of the error by the County Council at the beginning of September 2006. P King advised that a common statement about this issue was being included in reports on other Essex Districts and he did not intend to penalise the District Council but his work was subject to an internal check by the Audit Commission which could result in a different finding. He emphasised that he felt this would be unlikely as it would be unfair to penalise District Councils for the County Council's error. Members discussed the issue and noted that the District Council did not have the expertise which would have enabled them to identify this error.

P King reported that work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources was now complete and he anticipated being able to issue a qualified conclusion on the use of resources by 30 September 2006. He explained that the opinion would be qualified because the arrangements in place to manage the Council's significant business risks during 2005/06 and the arrangements to manage and improve value for money at that time had been assessed as not meeting the relevant criteria. The processes put in place

by the Council after 31 March 2006 could not be counted as evidence. Members noted that there were ten other aspects in relation to use of resources which were satisfactory.

P King expressed his appreciation for the Council's assistance and co-operation during the audit.

RECOMMENDED:

- (1) That the report be noted; and
- (2) That the recommendations and action plan regarding maintenance of the improvements to the arrangements for risk management and value for money be agreed.

23. AUDIT AND GOVERNANCE COMMITTEE - PROPOSED ESTABLISHMENT

The Committee considered a report regarding the establishment of an Audit and Governance Committee. Members noted that CIPFA had, in recent years, emphasised the importance of audit committees as a key source of assurance regarding an authority's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. Some of the benefits to be gained from operating an effective audit committee included:

- (a) raising greater awareness of the need for internal control and the implementation of audit recommendations;
- (b) increasing public confidence in the objectivity and fairness of financial and non-financial reporting;
- (c) reinforcing the importance and independence of internal and external audit and any other similar review processes (for example, providing a view on the statement of accounts and statement on internal control); and
- (d) providing assurance through a process of independent and objective review.

The Chief Internal Auditor reported that the Council had been assessed at level 2 in accordance with the Audit Commission's Use of Resources Assessment model. To move to level 3 it would be necessary to demonstrate that the Council had an audit committee that provided a challenge to the executive when required and provided for effective leadership on governance, financial reporting and audit issues. In order to perform this role the audit committee would need to operate independently from the executive.

The Committee gave initial consideration to the possible terms of reference, size and proportionality requirements of an audit committee. Members emphasised the need for the proposed committee to be made up of members with sufficient skills and suggested that there would be benefit in considering the appointment of one or more co-opted members. Members also recognised that careful consideration would need to be given to the terms of reference of the proposed committee, this Cabinet Committee and the Standards Committee in order to avoid undue duplication. Members suggested that the Chairman of this Cabinet Committee should be expected to attend all meetings of the proposed committee in a non-voting capacity.

RESOLVED:

- (1) That the establishment of an Audit and Governance Committee be agreed, in principle;
- (2) That consultation be undertaken with Overview and Scrutiny through the Constitution and Member Services Scrutiny Standing Panel; and
- (3) That further consideration be given to the establishment of an Audit and Governance Committee at a future meeting taking account of the views of the Constitution and Member Services Scrutiny Standing Panel.

24. BUSINESS AND INTERNAL CONTROL ASSURANCE FRAMEWORK

The Committee considered a report proposing the adoption of the Council's draft Business and Internal Control Assurance Framework.

The Chief Internal Auditor reported that the Council was seeking continued improvement in the Council's governance arrangements and that to achieve as higher rating as possible under the CPA arrangements, it was necessary to put in place an assurance framework that mapped the Council's strategic objectives to risks, controls and assurances as a supporting document to the Statutory Statement on Internal Control. Members noted that the Council already had effective processes dealing with the various elements of the control framework and the main purpose of the assurance framework document was to bring these elements together.

RECOMMENDED:

That the Council's draft Business and Internal Control Assurance Framework be adopted.

25. CAPITAL STRATEGY - 2006-2011

The Committee considered a draft Capital Strategy for 2006-2011.

Members noted that it was no longer necessary for the Council to submit the Capital Strategy to the Government Office for assessment but that there was an expectation that the strategy would continue to be produced and updated. Whilst there was no requirement to update the strategy annually, it was felt important to do so in order to ensure that it was kept up to date. A good capital strategy enabled the Council to make sound strategic decisions in relation to its use of capital resources and formed an important part of the Council's performance management and financial planning frameworks.

The Head of Finance reported that no major changes were proposed to the format or text of the Capital Strategy. He advised that the strategy had been updated with current schemes and expenditure forecasts as contained within the latest Capital Programme approved by the Cabinet on 4 September 2006. He drew attention to changes which had taken place since that time and to two reports which had been prepared for the Cabinet in October 2006 requesting supplementary capital estimates.

RECOMMENDED:

- (1) That the draft Capital Strategy 2006-2011 be approved and recommended to the Council for adoption including:

- (a) an additional estimate of £35,000 in 2007/08 for the purchase of a replacement plate maker for the Reprographics Section; and
- (b) an additional estimate of £143,000 (from 2007/08 to 2010/11) for works to be carried out at the Civic Offices;
- (2) That no funding for Phases 3 and 4 of the Loughton High Road Town Centre Enhancement be included at this time and that some of the funding for the Customer Services Transformation Programme be deferred in the Strategy but these schemes be subject to ongoing review;
- (3) That no change be made to the Council's key capital priorities ranked in the order approved in November 2005;
- (4) That as no schemes have been brought forward and no savings have been identified from elsewhere in order to fund the additional £500,000 contribution to affordable housing approved by the Cabinet in 2006, that contribution be excluded from the Strategy; and
- (5) That the Strategy be subject to continuous review and that in relation to any schemes where there is not a contractual commitment, officers consider whether those schemes should continue to go forward and/or whether start dates should be revised and that reports be made to members on any proposed changes.

26. BUDGET 2007/08 - FINANCIAL ISSUES PAPER

The Committee considered a report regarding a framework for the budget 2007/08 including a number of issues that would affect the Council in the short to medium term.

Members were advised that the following matters represented the greatest areas of current financial uncertainty and risk to the authority:

- (a) changes to the waste service and higher recycling targets;
- (b) capitalisation of pension deficit payments;
- (c) Customer Services Transformation Programme;
- (d) changes to the strategy Concessionary Fares scheme;
- (e) future local government finance settlements;
- (f) restriction on future Council Tax increases;
- (g) ongoing difficulties with recruitment and retention; and
- (h) generation of future capital receipts.

Members received an updated four year forecast for the General Fund, based on adjusting the balances for the 2005/06 underspend, analysing information gained from the recent outturn figures and adjusting future years accordingly. The predicted balance at 1 April 2007 of £5.328m represented just over 32% of the anticipated net budget requirement and was therefore somewhat higher than the Council's current

policy of 25%. However, the additional costs that were likely to be incurred on the refuse and street cleansing contract would result in the predicted balance being reduced to £2.65m by 1 April 2009. This would represent only 15% of the net budget requirement for 2009/10.

The Head of Finance reported that the deterioration in the financial position indicated a need for savings to be identified or the Council Tax to be increased above current target levels during the next four years.

In relation to CSB expenditure, members were reminded that the Council's policy was not to rely on the use of balances to provide support, with CSB expenditure being financed only from Government grant and Council Tax income. This meant that effectively the level of Council Tax would dictate the net expenditure on CSB or the CSB would dictate the level of Council Tax. As members had previously indicated that future Council Tax increases should be at or below the increase in the Retail Price Index, assumed to be 2.5% for the near future, it was clear that the former would be the determinate. Although the original budget for 2006/07 had achieved that objective, with funding from Government grants and local taxpayers exceeding CSB by £540,000, the revised estimate for this year now showed the CSB total at £16.78m, which exceeded funding by £0.98m. This revision was primarily based on the increased level of costs for the Waste Management and Street Cleansing Contract and showed that there was a need for CSB net expenditure to be reduced or tax increases to be raised.

Members noted that a decision was still awaited from central Government on the Council's application for a capitalisation direction in relation to the funding requirements for the Pension Fund in 2006/07. It was also proposed to submit an application for 2007/08 and it was possible that a direction might not be obtained for either or both years. If this were to be the case it would be necessary to seek substantial savings elsewhere or to increase significantly the Council Tax. Members noted that the risk of a direction not being granted had increased following the issue of amended guidance from the Department for Communities and Local Government (DCLG). Members further noted that the DCLG would not be informing authorities about their applications for 2006/07 until 31 January 2007.

The Head of Finance advised that the revised four year forecast included all supplementary estimates that had been approved by the Council to date. He cautioned that the Customer Services Transformation Programme had gained support in principle from the Cabinet on 10 July 2006 but that the necessary financial provision had not yet gained Council approval.

The Committee noted the uncertainties about the cost of the Concessionary Fares Scheme in 2006/07 and 2007/08. In addition the scheme would in any event cost more from 1 April 2008 when concessionary fares would not be restricted to scheme boundaries.

The Committee noted that estimated DDF expenditure over the period to 2009/10 would consume all remaining balances and transfers from the General Fund balance would be necessary to fund DDF items. The four-year forecast approved by the Council on 21 February 2006 had predicted a DDF balance of £1m at the end of 2009/10. However, DDF supplementary estimates of £995,000 had been approved to date in 2006/07. Members were advised that given the limited funding available from the DDF, only high priority projects should be funded from it and that further requests could not be supported unless additional funds were made available.

RECOMMENDED:

- (1) That the 2007/08 budget guidelines be as follows:
 - (a) the ceiling for CSB net expenditure be no more than £17m including net growth;
 - (b) that as part of the budget setting process all items included within the DDF be reviewed;
 - (c) that balances continue to be aligned to the Council's net budget requirement and that balances be allowed to fall no lower than 25% of the net budget requirement;
 - (d) the District Council Tax to be increased by no more than the rate of increase in the Retail Price Index;
- (2) That a revised medium term financial strategy for the period 2009/10 be developed in accordance with (1) above; and
- (3) That communication of the revised medium term financial strategy to staff, partners and other stakeholders be undertaken by way of publishing key bullet points in appropriate publications.

27. RISK MANAGEMENT

The Committee considered an update to the Corporate Risk Register and the action plans.

RESOLVED:

That the proposed amendments be agreed.

28. VALUE FOR MONEY SELF ASSESSMENT 2006

The Committee was advised that as part of the Audit Commission's annual evaluation of the Council's use of resources, the Authority was required to complete a value for money self assessment for submission to the Commission before the end of September 2006. A draft self-assessment was tabled at the meeting.

RESOLVED:

- (1) That the Council's draft self-assessment in respect of the annual Value for Money exercise be endorsed for immediate submission to the Audit Commission; and
- (2) That the draft Value for Money self-assessment be referred to the Cabinet at its next meeting for formal adoption and that any views expressed by members be passed to the Audit Commission.

CHAIRMAN
