

Report to the Finance and Performance Management Cabinet Committee

Reference : FPM-001-2018/19
Date of meeting: 26 July 2018



Portfolio: Finance

Subject: Financial Issues Paper

Responsible Officer: Peter Maddock (01992 564602)

Democratic Services Officer: Rebecca Perrin (01992 564532)

Recommendations/Decisions Required:

- 1. To recommend to the Cabinet the continuance of the budgetary framework approved by Council in February, including guidelines for 2019/20 covering:**
 - (a) The Continuing Services Budget, including growth items;**
 - (b) District Development Fund items; and**
 - (c) 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 2021/22, and the communication of the Medium Term Financial Strategy to staff, partners and other stakeholders.**
- 3. To note that the parish support grants are due to be phased out for 2019/20 as previously agreed.**

Executive Summary

This report provides a framework for the Budget 2019/20 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 and pay awards

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 2019/20.

Reasons for proposed decision:

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

Other options for action:

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

General Economy/Brexit

1. Last year's paper was produced shortly after the General Election. At that time there had been a period of significant uncertainty particularly on the impact of Brexit. The calling of the election was intended to improve the Governments negotiating position and potentially make the Brexit transition process as smooth as possible. What was clear from the outset was that the process would be time consuming with a lot of detail to be agreed before the country actually leaves the EU. Since this time last year Brexit has been barely out of the news and in November 2017 a formal date was set for leaving the EU of midnight on 29th March 2019. In the intervening period there have been some businesses saying that they will consider delaying investment in the UK due to Brexit but equally the stark warnings of economic gloom and doom have not materialized either and economic growth albeit quite slow has continued. The objective now is to get the best deal possible for the UK so that going forward the country is able to compete on the world stage.
2. As regards other aspects of the economy, low interest rates have been with us for nearly a decade now falling to historic lows of 0.25% in 2009 and apart from a small increase in November 2017 to 0.5% have remained pretty static. There has been talk of further increases in rates since then but weaker than expected economic performance in the first quarter of 2018 have meant this has yet to materialize. It is predicted that rates will increase between now and 2021 with some commentators suggesting a rise to 0.75% as early as August with a further two rises over the following two and half years but even then predicting rates of up to 1.25%. The Consumer Prices Index (CPI) measure of Inflation peaked in the autumn of 2017 at 2.8% the highest since April 2012 but has since fallen back to 2.3% (May 2018) however it has remained firmly within the tolerance set by Government. There is no evidence at the moment to suggest things will change dramatically.
3. Since 2016 the budget has been moved from the Spring to the Autumn so there is a little more uncertainty at this point in the year than previously but it is hoped that more clarity on the two big issues of the Fair Funding Review and Business Rates Retention will be provided in this year's budget. However it is unlikely that any improvement in District Council funding will be seen in the near future and in the unlikely event of some additional funding it will likely come hand in hand with additional responsibilities.
4. It will be a while yet before we can fully evaluate the effects of the Brexit but what we can see at the moment is that for district councils it has increased political uncertainty and reduced funding prospects.

General Fund Outturn 2017/18

5. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2017/18 is currently being audited and

one or two minor amendments are required to the outturn figures which have improved the position a little on that previously reported. In summary the General Fund Revenue outturn for 2017/18 shows that Continuing Service Budget (CSB) expenditure was £387,000 below the original estimate and £874,000 below the revised, which was after allowing for £1 million to be added to the District Development Fund (DDF) from the General Fund. The single largest individual item was a change in accounting treatment for the rental income from the shopping park to that assumed in the revised estimate. In effect income relating to the whole period of the leases has been spread over the whole period to include any rent free incentive periods, rather than just the time when income is actually received. The effect is that CSB income originally included in later periods has been accounted for in 2017/18 and there is no change overall once all tenants are paying.

6. The revised CSB estimate for 2017/18 increased from £13,109,000 to £13,596,000 with the actual being £12,722,000. There was additional income from the aforementioned change in accounting treatment of shopping park income and also additional investment interest income of £148,000 as cash reserves did not fall as quickly as expected but there was an offsetting over spend on the Leisure contract due to additional maintenance and TUPE related costs.
7. Net DDF expenditure was £1,333,000 lower than the revised estimate. However there were carry forward requests of £1,470,000 resulting from slippage so both expenditure and financing for this amount has been re-phased into 2018/19, giving a net overspend of £137,000. The largest variance was £971,000 on Neighbourhoods, of which £916,000 is related either to the Local Plan or Garden Town initiative. Whilst some of this was slippage there was also some additional funding that had not been confirmed when the revised budget was set and it is all being carried forward to spend in 2018/19. In Resources there was an underspend of £267,000, which includes £84,000 for Revenues staffing and £83,000 for building maintenance as projects have been delayed pending the outcome of the accommodation review.
8. The only significant variance on the non-directorate items within the DDF was reduced income of £120,000 on the DDF element of the council tax collection technical agreement. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £4,220,000 at 31 March 2018. However, much of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan and related items such as the work on the Harlow & Gilston Garden Town.
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 underspend and additional funding from business rate S31 grants. This translates into an increase in balances of £628,000 compared to the revised estimate of a decrease of £473,000. Although it must be remembered that this swing is almost entirely due to Shopping Park Income accounted for in 2017/18 originally allowed for in future budgets.

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 2017/18 actuals and one or two other additional items that have either been agreed or become apparent over the last couple of months. The annex (1b) shows that revenue balances will reduce by £446,000 in 2018/19 and then further in subsequent years by £73,000 in 2019/20, £695,000 in 2020/21 before reducing by £866,000 in 2021/22.
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 2019 of £6,389,000 represents just short of 50% of the anticipated NBR for next year (£12,902,000) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2022 the revenue balance will have reduced to £4,755,000. This still represents over 36% of the NBR for 2020/21 (£12,933,000).

12. The financial position as at 1 April 2018 was somewhat better than had been anticipated, but the higher General Fund balance really reflects accounting for shopping park income earlier than previously thought.
13. The target savings for 2020/21 and 2021/22 have been left at the original level of £300,000 in each year. 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 a couple of known changes it is anticipated that there will be £518,000 of DDF funds available at 1 April 2022. The four-year forecast approved by Council on 22 February 2018 predicted a DDF balance of £1,089,000 at the end of 2021/22, although both projections are assuming a transfer in of £1,300,000 from the General Fund balance in 2018/19 and £600,000 in 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 near future though we are currently showing some available in 2021/22. With the continued efforts to become self-financing, assisted by the certainty of the four year settlement, through revenue generating capital schemes it is possible that some borrowing will be required during 2018/19. We will seek to keep borrowing to a minimum through the use of reserves to fund capital expenditure where appropriate.

Central Government Funding

16. The position is unchanged from February but that would normally be the case, particularly as the settlement included draft figures out to 2019/20. The table below shows the position as in that report.
17. Back in July 2016 this Committee decided that the offer from MHCLG of a four-year settlement should be accepted. There are very few authorities that made a different decision as MHCLG has announced an acceptance rate of 97%. Given the existence of the four-year settlement and the previously announced figures it was disappointing to see our Settlement Funding Assessment (SFA) reduce for both 2018/19 and 2019/20. For 2018/19 the SFA has reduced by £6,623 and for 2019/20 the reduction is £49,756, the figures in the table below reflect these reductions.

| | 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 | 3.27 |
| SFA | 5.47 | 4.58 | 3.85 | 3.46 | 2.99 |
| Decrease £ | | 0.89 | 0.73 | 0.39 | 0.47 |
| Decrease % | | 16.3% | 15.9% | 10.1% | 13.6% |

18. This confirms the bleak picture for the four year period to 2019/20 with the SFA reducing over the period by £2.48m or over 45%. In 2019/20 the table shows negative Revenue

Support Grant of £0.28m this suggests there will be an additional tariff to be paid to Central Government. Although this is still under review it is hoped that this additional tariff might be removed and it is expected that the November budget will clarify the position. It is also worth noting that although 2019/20 is the final year of the four year settlement it cannot be assumed that figures we are currently working with will remain the same as we saw late changes to the detriment of the Council last year.

19. Whilst there is no information yet on what the settlement might look like beyond 2019/20 the Government has previously announced a Fair Funding Review (FFR). The FFR will affect allocations and distributions between local authorities from 2020/21 onwards. A consultation paper is expected between now and mid 2019 with indicative figures for 2020/21 and beyond available from summer 2019 for implementation in April 2020. FFR will not apply to funding outside the Local Government Finance settlement such as schools and policing but for this Council is likely to affect New Homes Bonus, Housing Benefit Admin grant and more importantly how Business Rates retention is going to evolve over the next few years. New Homes Bonus and Business Rates Retention will be dealt with in more detail later.
20. The Council increased the Council Tax in 2018/19 by 2.48% below the 2.99% district referendum limit to pay for additional policing for three years. The officers are now in place and based in the Civic Offices within the Community Safety team. The success or otherwise of the additional police officers will be reviewed in due course. Currently, the MTFS assumes that the police contribution will cease after the three years and the Council tax will revert to its former level.
21. As mentioned in the previous paragraph the settlement increased the referendum limit from 2% to 2.99% but it was again decided not to impose referendum limits on parishes, although this position remains under review. This means if parishes are unable to match the reductions in their Local Council Tax Support (LCTS) funding with efficiencies they are still free to increase their precepts.
22. In July 2017 the Finance and Performance Management Cabinet Committee decided that, in view of Revenue Support Grant disappearing by 2019/20, the LCTS grant to parishes should also be phased out. Therefore parishes will receive final LCTS grants amounting to £67,084 in 2018/19 before the grants being stopped in 2019/20.
23. It is difficult to know what the outcome of the FFR will be and we may still not have much to work with when the budget for 2019/20 is set in February 2019. The Financial Issues Paper (FIP) issued last year did comment that the current funding formula might still be in place for 2020/21 and given the lack of progress on the FFR since then this cannot be ruled out.

Business Rates Retention

24. The council is now into the sixth year of business rates retention. Since the introduction of business rates retention this Council has done rather better than the DCLG has predicted, as illustrated in the table below.

| | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|----------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| DCLG | 2.97 | 3.02 | 3.05 | 3.11 | 3.21 | 3.32 | tbc |
| Actual/Est. | 3.64 | 4.40 | 4.63 | 4.59 | 4.70 | 4.20 | 4.40 |
| Surplus | 0.67 | 1.38 | 1.58 | 1.48 | 1.49 | 0.88 | tbc |
| Levy | 0.34 | 0.24 | 0.37 | 0.56 | tbc | tbc | tbc |

25. 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. From 2015/16 a reduced levy is payable to the members of the pool who are top-up authorities, Essex County Council and Essex Fire Authority.

26. The table above illustrates that the rate of growth in business rate income has been higher than MHCLG 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. With the introduction of the new rating list from April 2017 there were further new reliefs and the system has become quite difficult to administer and very messy. It is evident that Section 31 grant will be with us for the foreseeable future.
27. Whilst the amounts included in the MTFs exceed those calculated by MHCLG they are still felt to be prudent. There is very little growth anticipated after 2017/18 despite the building of the retail park and other known likely developments within the district. Particular caution is needed over the estimates for 2017/18 and beyond. We are now in the second year which will be billed using the new rating list and there is still no data on appeals.
28. The complexity around the introduction of the new list has been made worse by changes to transitional relief and the appeals system. There were two levels of transitional relief but for reasons best known to the MHCLG the new list has three levels. This has then been compounded by the introduction of a new system of "Check, Challenge, Appeal" for businesses to use in challenging their bills. This process was introduced over a year ago and so far only about 12 appeals have reached the challenge stage and these have been on properties with quite small rateable values. I think it is fair to say appellants have struggled with the new system particularly those using agents who have had bulk appeals to submit as the system is more geared to those submitting single appeals. Some software changes designed to improve user friendliness are planned to make it work satisfactorily for ratepayers but this will again add further delays to the system. It is hoped that in the long term this system will be better for all parties and will indeed reduce the very lengthy delays that this system was designed to alleviate in the first place. However, the introduction of a new system means we have no past data that can be used to estimate the number of appeals and how they will arise and be dealt with through the life of the valuation list. Estimating business rates income has been extremely difficult in the past and if anything is even more so now but the figures will continue to be carefully monitored.
29. Having mentioned the difficulty with new appeals we should not lose sight of the appeals that are still outstanding on old lists. Progress on clearing these appeals has been extremely slow, but we are now down to a little over 100, and calculating an appropriate provision for appeals remains extremely difficult. 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.
30. 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 £3.39m.
31. This time last year the government had announced 100% local retention of business rates which was widely welcomed. However since then this has been amended to 75% and a

couple of consultation papers are expected during the autumn with a view to implementation for 2020/21. This ties in with the FFR mentioned earlier but again this date is less than two years away and the work involved in designing the new system, agreeing the sharing arrangements and whether or not a top up/tariff system to name but a few make this look a little optimistic but again we should know more in the November budget. There are a couple of popular misconceptions to correct. Firstly, 75% retention will not mean an increase in the business rate income we have to spend from £3.3m to £27m. What it actually means is that 75% 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.

32. In the last few days we have been made aware of one of the proposals relating to 75% Business rates retention which is rather concerning. It is proposed within the FFR formula that the average Council Tax is used to calculate the assumed amount a Council can raise from the Council Tax. Apparently this stands at £223 which is £70 above our current level of £153. In 2018/19 for example we have assumed a Council Tax precept of £8.166m using this average figure would make an assumed precept of £11.945m, a difference of £3.779m that one of the assumptions behind the new scheme will be that each council has their council tax set in line with the average for the Country. Having said this some form of transitional arrangements must surely be put in place if this proposal goes ahead. 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.
33. As stated earlier the new system is meant to be in place by 2020/21 at the latest, whether this happens remains to be seen.
34. It has been mentioned above that the Council has benefitted significantly from being in a business rates pool and consequently it has remained in a pool for 2018/19. Monitoring so far indicates that this should still prove beneficial but we are reliant on the outcomes from the other pool members. If it becomes evident either through the monitoring for 2018/19 that this Council will not benefit financially from pooling a recommendation will be made not to pool for 2019/20.

Welfare Reform

35. The current scheme of Local Council Tax Support (LCTS) is based on the maximum level of support being 75%. Overall the scheme has been a success and it has been possible to collect some Council Tax from most of the people receiving support. If support is reduced much further any financial gain from increasing the amount payable could be more than outweighed by additional bad debts from those who stop making an attempt to pay. It has to be emphasised that any increase in income from reducing LCTS is only a genuine increase if you can collect the money. Given that it seems to be working well it is felt that no significant change should be made for 2019/20. A more detailed report to Cabinet will be coming forward on this during the Autumn.
36. The other major change that has received considerable media coverage is the replacement of a collection of different benefits with a single Universal Credit (UC). This has been progressing albeit slowly with different parts of the district moving over to UC at different times. It has been a fragmented approach which has not been helpful for claimants and Housing Benefits staff alike. The use of UC for new claims is being rolled out based on Job

Centres. What this means for the Epping Forest district is that some post codes were on UC from September last year but the district will not be fully covered for new claims until December of this. Originally bed and breakfast accommodation was included in UC but it quickly became clear that this was unworkable and after pressure from local authorities the DWP made the decision to remove this. Clarity over the time period and process for the migration of our existing housing benefit claims to UC and the role local authorities will perform under the new system is still awaited.

37. 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, £40,000 was taken in 2016/17 £42,000 in 2017/18 and 2018/19 will see a further reduction of £29,000, which is a cut of around 22% over that time.

New Homes Bonus

38. During 2017/18 significant changes were made to the way New Homes Bonus (NHB) is allocated and the reductions in grant were far greater than had been anticipated. The reason for this much larger reduction was the introduction of a baseline of 0.4% for 2017/18. This meant that only growth above 0.4% of the taxbase qualified for NHB, in practical terms this reduced the number of qualifying properties from 241 to 11 or in cash terms the additional NHB for 2017/18 was £16,000 instead of £320,000. Having a baseline at 0.4% eliminated most of our growth and this will severely limit our income from NHB going forward as well.
39. During 2017/18 the Council Received a little short of £2,000,000 in bonus. In 2018/19 this has dropped to £849,000, a fall of over £1,100,000, estimates in 2019/20 and 2020/21 are £700,000 and £200,000 respectively so in a relatively short period of time this income source has been removed almost entirely. However we have allowed for all of this loss in the MTFS though at this stage these figures have not yet been finalised.
40. Given that NHB will be a small proportion of Council Funding by 2020/21 (£200,000), surely the worse that can happen is to lose the remaining amount, however given the significant number of properties due to be constructed in the district now that adoption process for the Local Plan can continue, it might be reasonable to assume that NHB would increase again. The FFR should make the future of NHB clearer and even if we did see increases again, these probably ought to be put into the DDF in their entirety certainly initially just in case we see reductions again after a couple of years. This can of course be reviewed during each budget cycle.

Development Opportunities

41. There is a separate Cabinet Committee for co-ordinating asset management issues so it is not intended 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.
42. The retail park is now operational with only one unit still under negotiation but expected to be completed by the date of this meeting. Once all units are operating, income from leases should be just over £2,500,000 however due to rent free periods the amount shown in the accounts each year will be slightly lower. The MTFS still shows a more prudent view to allow for any shortfall, management costs and interest.
43. Progress with the mixed use re-development of the St Johns area in Epping has been slow for a number of reasons. The land acquisition from ECC took much longer than anticipated

and the negotiations about provision for a cinema and replacement facilities for the Town Council in the development agreement have been protracted. However, there really does now seem to be an end in sight and it is anticipated that the development agreement will be concluded within the next couple of weeks. A planning application will then need to be submitted and considered by members and the Housing works unit relocated before the land can be developed. It is expected that the capital receipt will be available to the Council around May 2019. It is also worth mentioning the former Winston Churchill pub site which is progressing well and in which we have retained an interest in the ground floor retail element. The majority of the units are under offer or in negotiation. The MTFs has assumed income to be in the order of income £350,000 and should commence in 2018/19, however this will need to be reviewed as part of the 2019/20 budget process. Other possibilities will be evaluated as part of the Local Plan process.

44. There was a small overspend on the General Fund capital programme, but we were able to fund the programme without any additional borrowing. So far this year we have been able to avoid external borrowing and will continue to do so for as long as possible. This time last year we had expected to borrow during 2017/18 however our cashflow projections during the autumn/winter did reveal this to be unlikely unless there was significant additional capital expenditure. The projections for this year still need a little fine tuning but they do suggest external borrowing is unlikely in the next three to four months. However, going forward any significant additional capital expenditure either HRA or General Fund will no longer be freely available and borrowing costs will need to be considered as part of any options appraisals.

Transformation

45. Since last year's paper the Council Offices have been listed by Historic England which has put the accommodation review back. Discussions have been held with Historic England to establish what we can and cannot do to the building in order not to breach the listing conditions and it is anticipated that we should be able to achieve what we want to albeit rather later than intended. Members have made the strategic choice to concentrate services in the new building so the Conder Building and rear extension part of the site can be freed up for redevelopment. The exact timing of when this will be possible by is still unclear but indicative timings are being developed as part of further feasibility work being undertaken by PWC which will be reported to Cabinet in October. The remaining unallocated monies within the Invest to Save reserve have been allocated to the accommodation review and once the money has been spent a decision on the future of the reserve can be made.
46. The People and ICT Strategy are both now underway. With regard to the former one of the two Strategic Director roles has been recruited to however another attempt to recruit to the second role will be necessary in the coming months. The structure at Service Director level and which services fall within which of the new areas has been agreed and a recruitment process will be carried out over the next month or so. The Business Support team is currently being brought together from other parts of the Council in order to provide a comprehensive council wide support and admin unit which should reduce duplication and increase efficiency.
47. In December 2017 Cabinet agreed a budget of £2m jointly funded by the DDF and the HRA to meet the costs of the People Strategy which includes redundancy and pension related costs as well as some consultancy costs. The anticipated savings of a little over £2.5m will also be both General Fund and HRA and although it has been assumed a third will be HRA the actual outcome is likely to be different. Both the one off costs of the people strategy and the savings will need to be monitored quite closely to track actual savings against estimated. The budget will also need to be re-structured into the new service groupings for 2019/20 which will add a little additional work to the process and make the budget structure look rather different than now as there will be ten groupings rather than the current six.

Waste and Leisure Contracts

48. Two of the Council's high profile and high cost services are provided by external contractors, Biffa for Waste and Street Cleaning and Places for People for Leisure Management. 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. But in May 2015 the service was re-organised on a four day week basis and considerable difficulties were encountered.
49. The service was procured at a lower cost and the savings were included in the MTFS. However, issues with recycling and service delivery mean that CSB growth of nearly £500,000 was included in the revised estimates for 2016/17 together with £200,000 of DDF expenditure. Since then there have been further increases relating to loss of recycling income of £150,000 which is DDF to the February Cabinet and in June 2018 additional funding to meet the issues relating to the Chinese recycling market £200,000 one off Capital and £50,000 ongoing CSB. These costs are not sustainable in the long term and various options are being discussed with Biffa at the Waste Management Partnership Board to examine how overall costs can be reduced in future years.
50. The current Leisure Management contract started on 1 April 2017 with Places for People for a period of 20 years. Over the lifetime of the contract the average CSB savings will be more than £1,000,000 per year. The payments under the contract vary considerably between years and so the CSB savings are phased in over the first four years of the contract. If the whole CSB saving was included at the start of the contract there would need to be substantial transfers to the DDF for the first few years so it is better within the MTFS to match the economic reality of the contract.
51. The contract assumes investment in both new and existing leisure facilities. The replacement facility in Waltham Abbey is well underway with opening due in the autumn. Given the length and value of the contract it may be necessary to amend some of the assumptions and amounts as time progresses but the figures currently included in the MTFS are felt prudent.

Miscellaneous

52. In addition to the significant items mentioned above there are a number of other issues that need to be borne in mind. The economy goes in cycles and it is possible that a recession may occur and some commentators have suggested it is somewhat overdue. There has been a period of slow growth and inflation has generally been between 2 and 3% for some time. There is no point in speculating on if or when a recession will occur 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 tend to 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.
53. The Council's single largest cost is the annual pay bill of around £24m. The pay award for 2018/19 averaged out at around 2.3% for this Council. The agreement itself is for the period to 2020/21 and includes a complete overhaul of the pay scales because of the increases to the National Living Wage over that time. Broadly a 2% increase in both years has been agreed but on the lower points in 2019/20 it will be rather more. The MTFS is based on increases at 2.5% in 2019/20, 2% in 2020/21 and 1% in 2021/22.

54. When the adoption of the local plan occurs there will be 11,400 properties built within the district over the period of the plan generating additional Council Tax income. It is difficult to assess what effect this will have on council services other than additional waste collections. Based on the waste management contract the additional cost per property stands at £60.40 per property per annum which is well short of the additional band D equivalent council tax of £152.46 per property.

DDF

55. The carry forward of £1,470,000 represents an increase of £169,000 on the £1,301,000 of slippage for 2016/17. The largest items relate to the Garden Town of £527,000 and Local Plan of £272,000. The financial forecast shows that the DDF runs a little low in 2018/19 before building up again to £518,000 available at 1 April 2022. Having said that there are transfers of £1,300,000 and £600,000 from the General Fund included in 2018/19 and 2019/20 respectively.

The Capital Programme

56. The generation of capital receipts in 2017/18 was higher than had been anticipated. This was largely due to more council houses being sold than expected but also the sale of Lindsey House. Sales of 46 occurred in 2016/17 reducing to 42 in 2017/18. However all receipts generated were then subsequently used to fund Capital Expenditure.
57. It has already been said before and continues to be the case 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 is likely to be necessary at some point. It had originally been thought that this would be toward the end of 2017/18 however this hasn't happened and the Council actually had around £25m in surplus cash at year end and this has hardly moved since. We have recently met our Treasury advisors to discuss borrowing options should it come to that but if we continue with the existing capital programme we may well get beyond Christmas without the need to borrow particularly if the sale of the nursery site at Pyrles Lane comes to fruition. The current HRA capital programme is fully funded without the need for external borrowing. Any significant additions to the Capital programme will of course make borrowing more likely and the costs of this will need to form part of the project appraisal process.
58. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 19 June 2018 highlighted that the variance of £2.2m was a substantial reduction on the previous year's figure of £6.1m. Non-HRA expenditure was £0.5m above the estimate at £13.6m, whilst HRA expenditure of £20.4 m was £2.7m below the estimate of £23.1m. The slippage in the programme will be carried forward to subsequent periods.

An updated Medium Term Financial Strategy

59. 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 2017/18 and one or two other known changes. Annexes 1 (a & b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £300,000 for 2020/21 and £300,000 for 2021/22. These savings would give total CSB figures in those years of £13,508,000 and £13,799,000 respectively. Savings shown in 2018/19 and 2019/20 have all been identified but are somewhat reliant on the delivery of the people strategy savings estimated at £1,700,000 for the General Fund.
60. This proposal sets net DDF expenditure at £5,440,000 for 2018/19 and £553,000 for

2019/20, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

61. No predicted non-housing capital receipts are being taken into account, although the sale of Pyrles Lane should happen soon and the St Johns sale should reach exchange of contracts imminently. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund is nil in all years apart from 2021/22 as all receipts generated are subsequently used. This is the first time capital resources are not freely available and a change in thinking is needed to ensure any capital proposals include borrowing costs.
62. 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

63. 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

64. The Council remains in a strong financial position. It is comforting at this time to have substantial reserves during a period of uncertainty and a higher level of financial risk. There is particular uncertainty around the financing situation for 2020/21 and beyond.
65. Hopefully we will see a period of stability in government, which would assist in clarifying policies covering, the reform of local government funding, devolution and changes to the HRA. However, these may be delayed by the work on negotiating our exit from the EU and our new trade deals with the rest of the world.
66. 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 the savings that can be achieved from the implementation of the people strategy. Also there may be additional costs from the growing problem of homelessness.
67. 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. At this time it is difficult to meaningfully update the MTFS, so the programme of net savings is unchanged from that set out in February. This should be achievable as our financial strength allows us to look for the necessary savings over the medium term.

Equality Impact Assessment

1. Under s.149 of the Equality Act 2010, when making decisions, Epping District Council must have regard to the Public Sector Equality Duty, ie have due regard to:
 - eliminating unlawful discrimination, harassment and victimisation, and other conduct prohibited by the Act,
 - advancing equality of opportunity between people who share a protected characteristic and those who do not,
 - fostering good relations between people who share a protected characteristic and those who do not, including tackling prejudice and promoting understanding.
2. The characteristics protected by the Equality Act are:
 - age
 - disability
 - gender
 - gender reassignment
 - marriage/civil partnership
 - pregnancy/maternity
 - race
 - religion/belief
 - sexual orientation.
3. In addition to the above protected characteristics you should consider the cross-cutting elements of the proposed policy, namely the social, economic and environmental impact (including rurality) as part of this assessment. These cross-cutting elements are not a characteristic protected by law but are regarded as good practice to include.
4. The Equality Impact Assessment (EqIA) document should be used as a tool to test and analyse the nature and impact of either what we do or are planning to do in the future. It can be used flexibly for reviewing existing arrangements but in particular should enable identification where further consultation, engagement and data is required.
5. Use the questions in this document to record your findings. This should include the nature and extent of the impact on those likely to be affected by the proposed policy or change.
6. Where this EqIA relates to a continuing project, it must be reviewed and updated at each stage of the decision.
7. All **Cabinet, Council, and Portfolio Holder reports must be accompanied by an EqIA**. An EqIA should also be completed/reviewed at key stages of projects.
8. To assist you in completing this report, please ensure you read the guidance notes in the Equality Analysis Toolkit and refer to the following Factsheets:
 - Factsheet 1: Equality Profile of the Epping Forest District
 - Factsheet 2: Sources of information about equality protected characteristics
 - Factsheet 3: Glossary of equality related terms
 - Factsheet 4: Common misunderstandings about the Equality Duty
 - Factsheet 5: Frequently asked questions
 - Factsheet 6: Reporting equality analysis to a committee or other decision making body

Section 1: Identifying details

Your function, service area and team: **Finance**

If you are submitting this EqlA on behalf of another function, service area or team, specify the originating function, service area or team: **N/A**

Title of policy or decision: **Financial Issues Paper 2019/20 budget**

Officer completing the EqlA: **Tel: 01992 564602**
Email: pmaddock@eppingforestdc.gov.uk

Date of completing the assessment: **19th July 2018**

Section 2: Policy to be analysed

| | |
|-----|--|
| 2.1 | Is this a new policy (or decision) or a change to an existing policy, practice or project? No |
| 2.2 | <p>Describe the main aims, objectives and purpose of the policy (or decision):</p> <p>This report represents a summary of the issues affecting the construction of the 2019/20 budget</p> <p>What outcome(s) are you hoping to achieve (ie decommissioning or commissioning a service)?</p> <p>It aims to provide financial and other information that will affect the budget for 2019/20.</p> |
| 2.3 | <p>Does or will the policy or decision affect:</p> <ul style="list-style-type: none">• service users• employees• the wider community or groups of people, particularly where there are areas of known inequalities? <p>No</p> <p>Will the policy or decision influence how organisations operate?</p> <p>No</p> |
| 2.4 | <p>Will the policy or decision involve substantial changes in resources?</p> <p>The financial impacts are given in detail within the report.</p> |
| 2.5 | <p>Is this policy or decision associated with any of the Council's other policies and how, if applicable, does the proposed policy support corporate outcomes?</p> <p>The report summarises decisions previously approved.</p> |

Section 3: Evidence/data about the user population and consultation¹

As a minimum you must consider what is known about the population likely to be affected which will support your understanding of the impact of the policy, eg service uptake/usage, customer satisfaction surveys, staffing data, performance data, research information (national, regional and local data sources).

| | |
|-----|--|
| 3.1 | What does the information tell you about those groups identified? N/A – this report focuses on financial provision. Any equalities impact assessment for individual projects or programmes is detailed on the respective reports. |
| 3.2 | Have you consulted or involved those groups that are likely to be affected by the policy or decision you want to implement? If so, what were their views and how have their views influenced your decision? N/A – see above. |
| 3.3 | If you have not consulted or engaged with communities that are likely to be affected by the policy or decision, give details about when you intend to carry out consultation or provide reasons for why you feel this is not necessary: N/A – see above. |

Section 4: Impact of policy or decision

Use this section to assess any potential impact on equality groups based on what you now know.

| Description of impact | Nature of impact Positive, neutral, adverse (explain why) | Extent of impact Low, medium, high (use L, M or H) |
|----------------------------|--|--|
| Age | Neutral. Any impacts on different age groups have been taken into account when the individual schemes were originally approved. As this report does not represent a formative stage in the approval of capital projects, it does not have any impact. | Low |
| Disability | Neutral for the reasons given above. | Low |
| Gender | Neutral for the reasons given above. | Low |
| Gender reassignment | Neutral for the reasons given above. | Low |
| Marriage/civil partnership | Neutral for the reasons given above. | Low |
| Pregnancy/maternity | Neutral for the reasons given above. | Low |
| Race | Neutral for the reasons given above. | Low |
| Religion/belief | Neutral for the reasons given above. | Low |
| Sexual orientation | Neutral for the reasons given above. | Low |

| Section 5: Conclusion | | | |
|-----------------------|--|----------------------------|---|
| | | Tick Yes/No as appropriate | |
| 5.1 | Does the EqIA in Section 4 indicate that the policy or decision would have a medium or high adverse impact on one or more equality groups? | No X | |
| | | Yes | If 'YES', use the action plan at Section 6 to describe the adverse impacts and what mitigating actions you could put in place. |

[illegible]

Section 7: Sign off

**I confirm that this initial analysis has been completed appropriately.
(A typed signature is sufficient.)**

Signature of Head of Service: Derek MacNab

Date: 8th June 2018

Signature of person completing the EqlA: Peter Maddock

Date: 8th June 2018

Advice

Keep your director informed of all equality & diversity issues. We recommend that you forward a copy of every EqlA you undertake to the director responsible for the service area. Retain a copy of this EqlA for your records. If this EqlA relates to a continuing project, ensure this document is kept under review and updated, eg after a consultation has been undertaken.