Committee Agenda

Epping Forest District Council

Finance and Performance Management Cabinet Committee
Thursday, 17th September, 2015

You are invited to attend the next meeting of **Finance and Performance Management Cabinet Committee**, which will be held at:

Committee Room 1, Civic Offices, High Street, Epping
on **Thursday, 17th September, 2015**
at **7.30 pm** .

Glen Chipp
Chief Executive

Democratic Services Officer	Rebecca Perrin, The Office of the Chief Executive Tel: 01992 564532 Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors S Stavrou (Chairman), A Lion, J Philip, D Stallan and C Whitbread

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PLEASE NOTE THE START TIME OF THIS MEETING

BUSINESS

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

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

3. **MINUTES**

   To confirm the minutes of the last meeting of the Committee held on 20 July 2015 (previously circulated at Cabinet on 3 September 2015).

4. **HRA FINANCIAL PLAN (Pages 5 - 26)**

   (Director of Communities) To consider the attached report (FPM-008-2015/16).

5. **KEY PERFORMANCE INDICATORS 2015/16 Q1 PERFORMANCE (Pages 27 - 32)**

   (Senior Performance Management Officer) To consider the attached report (FPM-009-2015/16).

6. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2014/15 (Pages 33 - 52)

(Director of Resources) To consider the attached report (FPM-010-2015/16).

7. INVEST TO SAVE PROPOSALS (Pages 53 - 60)

(Director of Resources) To consider the attached report (FPM-011-2015/16).

8. CORPORATE RISK UPDATE (Pages 61 - 84)

(Director of Resources) To consider the attached report (FPM-012-2015/16).

9. Q1 FINANCIAL MONITORING (Pages 85 - 108)

(Director of Resources) To consider the attached report (FPM-013-2015/16).

10. ANNUAL GOVERNANCE REPORT (Pages 109 - 110)

(Director of Resources) To consider the attached report (FPM-014-2015/16).

11. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs 6 and 25 of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (non-executive bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks' notice of non-urgent items is required.

12. 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.

Confidential Items Commencement: Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) All business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest.

(2) At the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press.

(3) Any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers: Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

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Report to the Finance and Performance Management Cabinet Committee

Report reference: FPM-008-2015/16
Date of meeting: 17 September 2015

Epping Forest District Council

Portfolio:	**Housing**
Subject:	**HRA Financial Plan – Future options resulting from required rent reductions**
Responsible Officer:	**Alan Hall, Director of Communities (01992 564004)**
Democratic Services:	**Rebecca Perrin (1902 564532)**

Recommendations/Decisions Required:

(1) That, as a result of the Government's requirement that all social landlords reduce their rents by 1% per annum for the next four years, the estimated loss in rental income to the Council's Housing Revenue Account (HRA) of around £14million over the next four years and around £228million over the next 30 years (compared to the Council's current HRA Financial Plan expectations) be noted;

(2) That the resultant report from the Council's HRA Business Planning Consultants, CIH Consultancy, on the options available to the Council to ensure that its HRA does not fall into deficit (attached as an Appendix) be considered;

(3) That, since no immediate corrective action is required at present, subject to Recommendation (4) below, no decisions be made to re-cast the HRA Financial Plan until further information becomes available on the effect of the Government's separate proposal to require local authorities to sell "high value" void properties;

(4) That the £702,000 uncommitted funding within the HRA's Housing Improvements and Service Enhancements Fund for 2016/17 not be spent at present, with the exception of:

(a) £20,000 per annum being made available for a further 2 years (2016/17 and 2017/18) to fund Voluntary Action Epping Forest (VAEF) to continue to provide the successful Mow and Grow Scheme for older and disabled Council tenants; and

(b) £50,000 per annum continuing to be made available for the Housing Improvements and Service Enhancements In-Year Fund, to fund small improvements and enhancements identified during 2016/17, with the current approval arrangements applying;

(5) That the £384,000 already accumulated and held within the Housing Improvements and Service Enhancement Fund's Major Capital Projects Reserve be retained and made available for future HRA capital projects;

(6) That the Cabinet Committee reviews the HRA Financial Plan again in 2016, and makes decisions for the future at that time, once the financial implications for the Council of the Government's requirement for local authorities to sell "high value" void properties are known; and

(7) That, in order to inform the review in 2016, a further Options Report be provided by the Council's HRA Business Planning Consultants at that time, and that the Housing Select Committee and the Tenants and Leaseholders Federation be consulted for their views on the options, prior to consideration by the Cabinet Committee.

Executive Summary:

In July 2015, the Government announced that all social landlords must reduce their rents by 1% per annum for four years, instead of increasing their rents by CPI + 1% in accordance with previous Government guidance.

The Council's HRA Business Planning Consultants, CIH Consultancy, have assessed the estimated loss in rental income to the Council's Housing Revenue Account (HRA), compared to the Council's current HRA Financial Plan expectations, and provided the Council with a report on the options available to the Council to ensure that its HRA does not fall into deficit, which is attached as an Appendix. Simon Smith from CIH Consultancy will be attending the Cabinet Committee to present the Options Report in detail, and to answer members' questions.

Since the Options Report identifies that no immediate corrective action is required at present, it is suggested that no decisions are made at the current time to re-cast the HRA Financial Plan, but that a review of the HRA Financial Plan be undertaken again in 2016, and decisions for the future made at that time, once the financial implications for the Council of the Government's requirement for local authorities to sell "high value" void properties are known.

It is also suggested that, with a few exceptions set-out in the report, the uncommitted funding within the HRA's Housing Improvements and Service Enhancements Fund for 2016/17 is not spent at present.

Reasons for Proposed Decision:

The estimated rental loss to the HRA is significant, and the future strategy for the Council's HRA Financial Plan needs to be reviewed, but this can wait for a further year, until more information is available on other external financial risks

Other Options for Action:

The main alternative options appear to be:

- To select one the options set out in the CIH Consultancy Report (or another option), re-cast the HRA Financial Plan now and action the resultant decisions required
- To not place a moratorium on the use of the Housing Improvements and Service Enhancements Fund in 2016/17 and continue to invite the Housing Select Committee to propose how the resources currently allocated to the Fund within the HRA Financial Plan could be best utilised for 2016/17
- To not utilise the Fund to make funding available for the Mow and Grow Scheme for the next two years and/or the In-Year Fund
- To not retain the resources accumulated within the Fund for the Major Capital Projects Reserve
- To not consult the Housing Select Committee and/or the Tenants and Leaseholders Federation on the available options for the HRA Financial Plan, prior to reviewing them in 2016

Background:

1. As part of the Chancellor's Summer Budget in July 2015, it was announced that all social landlords (councils and housing associations) must reduce their rents by 1% per annum for four years, instead of increasing their rents by CPI + 1% in accordance with previous Government guidance.

2. The Council's HRA Business Planning Consultants, CIH Consultancy, have assessed that the estimated loss in rental income to the Council's Housing Revenue Account (HRA) will be around £14million over the next four years and around £228million over the next 30 years (compared to the Council's current HRA Financial Plan expectations).

3. In view of this significant reduction in rental income, the Director of Communities commissioned Simon Smith from CIH Consultancy to provide a report on the options available to the Council to ensure that its HRA does not fall into deficit.

CIH Consultancy's Options Report on the Council's HRA Financial Plan

4. CIH Consultancy's report is attached as an Appendix. **Simon Smith will be attending the Cabinet Committee to present the Options Report in detail, and to answer members' questions.**

5. As can be seen, the report identifies a number of options available to the Council to recast its HRA Financial Plan for the future, including:

- Ceasing all or some of the funding currently available within the Financial Plan for future housing improvements and service enhancements for HRA services;
- Reducing investment in improvements to the Council's housing stock (and reducing the Council's Modern Home Standard accordingly);
- Reducing/ceasing the Council's own Housebuilding Programme;
- Further borrowing for the HRA, repaid by the end of the Financial Plan period;
- Combinations of the above.

6. The report also identifies some future financial challenges for local authority HRAs, which cannot currently be quantified. The most significant potential financial effect on the Council's HRA is the Government's proposal to require local authorities (but not housing associations) to sell "high value" void properties, primarily in order to fund the Government's intention to extend the Right to Buy to housing association tenants. However, very little information is currently available on what constitutes a "high value" property, or the proposed arrangements; therefore it is not yet possible to assess the financial impact on the Council's HRA. It is expected that further information will be available in the Autumn, when the Government publishes its Housing Bill. It is also expected that the Government will undertake a consultation exercise on the proposal around the same time.

7. The CIH Consultancy's Options Report identifies that, although decisions will need to be made within the near future, no immediate corrective action is required at present. Therefore, in view of the uncertainties set out in the Options Report, particularly the proposal to require local authorities to sell "high value" void properties, it is suggested that, generally, no decisions be made to re-cast the HRA Financial Plan until further information becomes available on these uncertainties.

Housing Improvements and Service Enhancements Fund

8. However, in view of the need to reduce expenditure currently planned for the HRA in the

long term, and since this is likely to involve a reduction in the resources available to the HRA's Housing Improvements and Service Enhancements Fund over the next 30 years, it is suggested that most of the £702,000 uncommitted funding within the HRA's Housing Improvements and Service Enhancements Fund for 2016/17 not be allocated/spent at present. There are two suggested exceptions to this moratorium.

9. Firstly, the HRA has funded a very successful Garden Maintenance Scheme for Older and Vulnerable Tenants (the "Mow and Grow" Scheme) operated by Voluntary Action Epping Forest (VAEF) since 2003. The service includes clearing and maintaining overgrown gardens - including lighter tasks, such as lawn cutting, hedge trimming and light weeding - with priority given to dealing with gardens that are unsafe and/or unusable and therefore hinder the tenant to enjoy the facility. Tenants are only included on the scheme if there is no-one physically able to carry out the work under the age of 70 years living at the property, or if they are disabled. All those applying are assessed by VAEF and are only included on the scheme if they genuinely cannot cope with their gardens and have no other means of maintaining them. The Cabinet previously agreed that £20,000 per annum should be made available from the Fund for two further years, ending in March 2016, to supplement the HRA's existing ongoing funding of £20,000 per annum for the Scheme. In view of the success of the Scheme, and the benefits it brings for older and disabled tenants (as well as the difficulties that would be caused to the continuity of the service), it is suggested that the Fund continues to provide the additional £20,000 per annum towards the cost of the Scheme for a further two years (2016/17 and 2017/18).

10. Secondly, since its inception in 2013, the Housing Improvements and Service Enhancements Fund has included an "In-Year Fund" of £50,000 per annum, for small improvements projects that may be identified during the course of the year by members and officers, instead of the improvements having to be delayed until the following year. Individual one-off projects costing in excess of £10,000 have to be formally authorised by Housing Portfolio Holder. This has proved very beneficial to tenants, so it is therefore suggested that £50,000 per annum continues to be made available through the In-Year Fund, with the current approval arrangements applying.

11. Over the last few years, the Housing Improvements and Service Enhancements Fund has accumulated £384,000 within its Major Capital Projects Reserve. The Cabinet previously decided to introduce the Reserve to enable resources to be accumulated and available when required for major capital housing projects, subject to the schemes having the approval of the Cabinet or Housing Portfolio Holder as appropriate. This was because no provision is made for major capital housing schemes within the HRA Financial Plan. The need for major capital schemes has occurred from time-to-time, and has included the major improvement scheme at Springfields, Waltham Abbey, small scale stock transfers of sheltered housing schemes to housing associations to enable conversion and improvement works to be undertaken and the conversion scheme at Marden Close and Faversham Hall, Chigwell Row (currently on-site).

12. It is therefore suggested that the £384,000 already accumulated and held within the Housing Improvements and Service Enhancement Fund's Major Capital Projects Reserve be retained (but not increased) and made available for future HRA capital projects that are identified.

Deferment of review and decisions on HRA Financial Plan until 2016

13. Since CIH Consultancy's Options Report identifies that no immediate corrective action is required at present, and in view of the uncertainties set out in the Options Report, it is suggested that no decisions be made to re-cast the HRA Financial Plan for the time being, and until further information becomes available on these uncertainties.

14. It is therefore suggested that the Cabinet Committee reviews the HRA Financial Plan again in 2016, and makes decisions for the future, once (particularly) the financial implications for the

Council of the Government's requirement for local authorities to sell "high value" void properties are known.

15. In order to inform the review in 2016, it is proposed that a further Options Report be provided by the Council's HRA Business Planning Consultants at that time, and that the Housing Select Committee and the Tenants and Leaseholders Federation be consulted for their views on the options, prior to consideration by the Cabinet Committee.

Resource Implications:

As set out in the Options Report from CIH Consultancy, attached as the Appendix.

Legal and Governance Implications:

It is a legal requirement for the Council to ensure that it does not budget for, or allow, its HRA to fall into deficit.

The requirement to reduce rents by 1% per annum for the next 4 years forms part of the Welfare Reform and Work Bill, currently under consideration by Parliament.

Safer, Cleaner and Greener Implications:

Some of the issues and options under consideration have an effect on the amount of capital resources the Council is able to spend on its properties and housing estates and on new Council Housebuilding. Much of the Council's housing capital expenditure is used to make the Council's homes and estates safer, cleaner and greener.

Consultation Undertaken:

None – One of the recommendations, though, is to consult the Housing Select Committee and Tenants and Leaseholders Federation for their views on the options for the HRA Financial Plan, prior to consideration of the Cabinet Committee's proposed further review in 2016.

The Tenants and Leaseholders Federation has also agreed to consider the implications of the options within the CIH Consultancy Options for tenants at its next meeting in October 2015.

Background Papers:

None.

Risk Management:

The main risks are as follows:

a) If the Council does not re-cast its HRA Financial Plan within the next year or so, and continues to follow the proposed spending proposals within the current HRA Financial Plan, the HRA will fall into deficit within the new few years. Not only would this be ultra vires, it would also require emergency remedial action to bring the HRA back into surplus.

- This is mitigated by the fact that the Options Report identifies that no immediate corrective action is required at present, and the key recommendation to the Cabinet Committee is to undertake a further review of the HRA Financial Plan in 2016, and make decisions at that time on the future strategy for the HRA Financial Plan.

b) The financial implications for the Council of the Government's requirement for local authorities to sell "high value" void properties are not yet known.

- Again, this is mitigated by the recommendation to wait until the implications are known, before setting the future strategy for the HRA and taking decisions for the future

c) The assumptions used for the HRA and within the Options Report could prove to be incorrect
- This is mitigated by using an experienced and knowledgeable HRA Business Planning Consultant, Simon Smith, who has now advised the Council on its HRA Financial Plan from the outset
- A formal review of the HRA Financial Plan is also undertaken quarterly by officers and half-yearly by the Housing Select Committee, though detailed review reports produced by CIH Consultancy.

d) The Council could take on more borrowing, or reduce housing services, by more than necessary
- This is the purpose for commissioning the Options Report early, and for deferring decisions until 2016 (when more information should become available on external factors)

e) The Government could change its approach to national rents policy again
- Regrettably, the Government has already reneged on past commitments with regard to national rent policy, to the detriment of the Council's Financial Plan, on two occasions in the past. However, this is outside the Council's control – although the Council is a member of the Association of Retained Council Housing (ARCH) that continues to support the interests of stock retained councils and lobby Government on national housing issues

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

The HRA funds a number of services that specifically benefit tenants within the protected characteristics of the Equality Act, particularly older people and people with disabilities.

The most recent Tenants Census established that around 56% of the Council's tenants are aged 60 years or older, and around 19% are aged 80 years or older, and that around 30% of all tenants consider themselves to have some form of disability that limits their activities in some way. Depending on the eventual option(s) pursued, reductions in the expenditure on housing services could result in reduced expenditure on adaptations for older and disabled people, off street parking (beneficial to older and disabled tenants), the garden maintenance scheme, the Handyperson Scheme.

However, the recommendations propose that no key decisions be made yet.

Epping Forest District Council

HRA Business Plan Financial Projections

September 2015 Review and Options Paper

1. Introduction

1.1 CIH consultancy have been commissioned to regularly update the Council's HRA Business Plan and report on the latest projections arising and how the position has changed from the last review of the model.

1.2 Following the Summer Budget on 8 July 2015 it was announced to the social housing sector that all rents within social housing would have to be reduced by 1%, rather than the previous guidance of annual increases of CPI plus 1%. The rent reduction is to be applied over a four year period. So for example a tenant currently paying £100.00 per week will see it reduced to £99.00 next April and then £98.01 the following year and so on until April 2020 when rents are proposed to increase by CPI plus 1% again.

1.3 This will have a significant impact to the resources available to not only Epping Forest but for the whole sector. For Local Authorities we have assessed the impact as £2.6billion in terms of lost revenue against forecasts (based on the Government's own forecasts for CPI).

1.4 Provisional workings provided for Epping Forest suggest that the impact will be £13.893million over the four year period, which is compounded to £225.8million over a thirty year period. This is a significant impact and one that will happen as explained below. This review identifies the initial impact of the policy to the Business Plan and a range of options to rebalance the long-term viability of the Plan.

2. The New Rent Policy

2.1 In the 2015 Summer Budget it was announced that social rents will reduce by 1% per year over a four year period. This was in order to save £4.28billion over a five year period for the associated Housing Benefit costs, which would have seen increases without this action.

2.2 To implement these changes the new Welfare Reform and Work Bill was published on 9 July 2015 which in effect set about enforcing these changes rather than going through the usual process of consultation.

2.3 It was originally interpreted that this would only apply to housing association rents but subsequent confirmation from DCLG has stated that this will apply to local authorities as well.

2.4 The Bill is to cover all types of rent within the social sector with the exclusion of shared ownership. This means that all new build properties let at affordable levels will also have the reduction applied over the next four years.

2.5 Further reading of the Bill suggests that the current policy of re-letting voids at formula rent will prove fruitless as the point of which rent for reduction is set at levels prior to 8 July. This also negates the opportunity to have a second rent increase within a year in order to potentially offset the impact of this policy.

2.6 There will be the opportunities for housing providers to claim a waiver from the policy, but we are told that this will be in very extreme circumstances and unfortunately we cannot assume (indeed, it is probably unlikely) that Epping Forest will fall into the category.

2.7 The Local Authority sector has voiced the possibility of challenging the Government in terms of the re-opening the self-financing settlement, given the change in the rent policy. This is an option though one we consider potentially risky in terms of challenge given that other factors could be included which may negate the possibility of some debt repayment.

3. The Revised Base Position

3.1 We have built upon the last iteration of the Business Plan model from March 2015 (as included within the Council's latest annual HRA Business Plan) but updated this for the final out-turn position for 2014.15 (which provides for slippage on the capital programme carried forward to 2015.16) and revised opening balances. The modelling continues to start from 2014.15 as Year 1.

3.2 We have also updated the Plan for the latest new build projections for Phases 1 to 6 delivering 215 new affordable homes which have impacted on the short-term values for additional service enhancements as detailed below. This is offset by some additional capital receipts that will be applied during 2015.16 and 2016.17.

3.3 The changes to the rent policy have also been implemented on the assumption that from April 2020 rents will increase by CPI plus 1% and we have not modelled new tenancies being re-let at formula levels (as a precaution). However, as identified in section 5 there is the potential for this decision to be reversed and have identified the net benefit of this.

3.4 The Plan is predicated on the basis that the levels of service and the required level of investment in the existing stock is based on those within the original Business Plan.

3.5 There are though some key variables which will have a major influence on the viability of the Plan and these are summarised as:

- Investment in new affordable homes
- Debt Repayment Strategy
- Service Enhancements

Whilst the options around the application of these will be discussed as part of the review below, we have detailed below the current assumptions within the revised base position of this Plan.

3.6 The Plan currently includes for the provision of 215 new homes at a total cost of £36.7million. This is funded primarily from:

- ‘1-4-1’ receipts from right to buy sales
- 30% of the ‘allowable’ debt element of right to buy sales
- Capital receipts, grants and s106 contributions
- £0.5m of HCA funding

The residual balance after utilising the above resources is funded from current reserves and future surpluses within the HRA without the need to borrow.

3.7 The loan portfolio remains unchanged and is detailed below for reference:

Loan £m	Interest Basis	Interest Rate	Maturity
31.800	Variable	0.62%	Mar 2022
30.000	Fixed	3.46%	Mar 2038
30.000	Fixed	3.47%	Mar 2039
30.000	Fixed	3.48%	Mar 2040
30.000	Fixed	3.49%	Mar 2041
33.656	Fixed	3.50%	Mar 2042

3.8 The interest on these loans will be charged directly to the HRA; since the vast majority have fixed rates the forecast interest projections will be accurate. We have estimated a gradual increase of interest rate for the variable rate loan up to 2.12% by Year 5 of the Plan.

3.9 The HRA currently has a Self-Financing Reserve with a balance currently at £9.54million with a further addition of £3.18million in 2015.16. This Reserve is projected to be increased through contributions from the HRA up to and including 2021.22 in order to build sufficient balances to repay the £31.8million loan facility in March 2022. In following years (annually increasing) contributions are forecast to build reserves in order to repay the five residual loans as and when they mature.

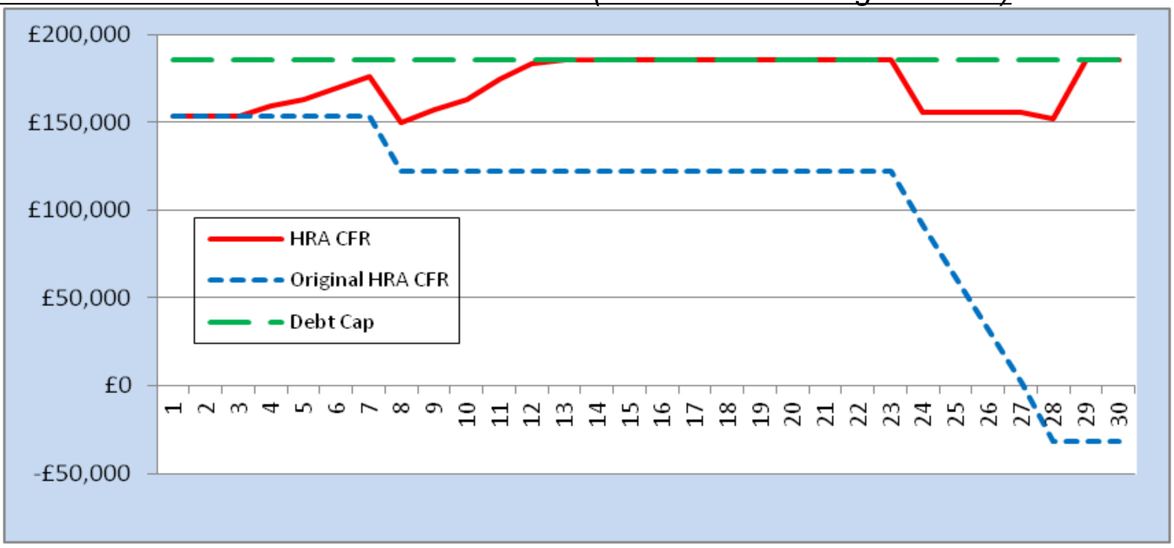
3.10 Within the original Business Plan, following implementation of self-financing, £770,000 per annum of service enhancements were included within the revenue projections and have continued throughout all iterations of the plan. To date approximately £200,000 of the £770,000 have been integrated into existing management and repairs budgets leaving an ongoing £570,000 per annum being provided for on an annual basis throughout the life of the Plan.

3.11 In addition to the £570,000 per annum above, provision has been made within the existing Plan for the following additional expenditure on service enhancements;

Increases/ (Decreases) to Ongoing Service Enhancements	**2015.16 Business Plan (Pre-rent adjustment) Per-annum**
April 2015 (4 years)	£370,000
April 2019 (3 years)	£190,000
April 2022 (2 years)	£4,390,000
April 2024 (5 years)	£2,250,000
April 2029 (5 years)	£1,700,000
April 2034 (1 year)	(£200,000)
Total over 30 Years	**£180,560,000**

3.12 With the inclusion of the above factors the base position of the Business Plan is presented in the graphs below:

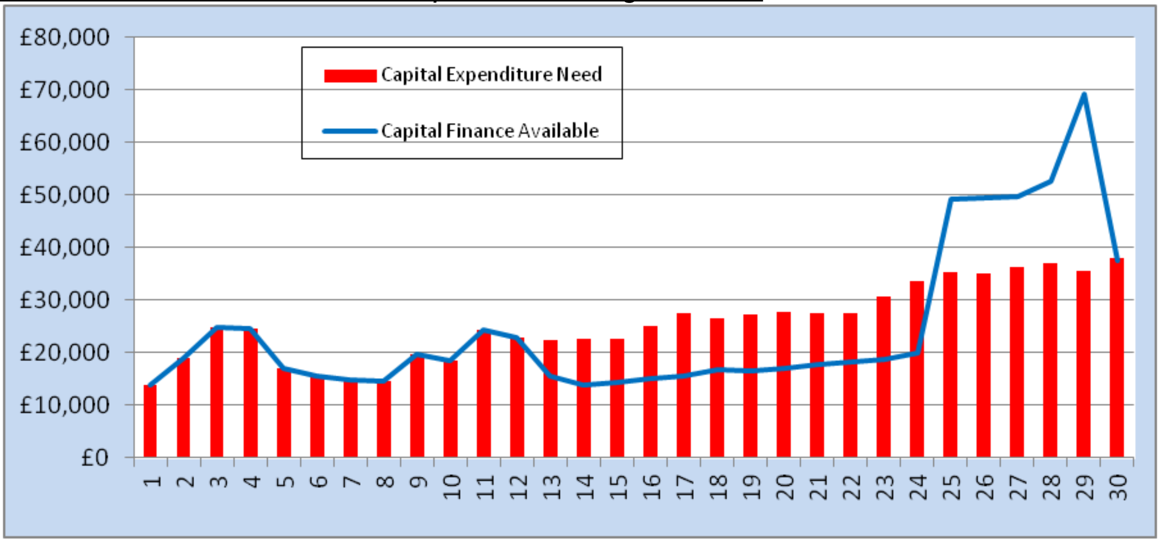
Base Position £'000 – HRA Debt Position (with Self-Financing Reserve)



3.13 The above demonstrates clearly the impact of the reduction in rents. From Year 3 the Plan requires additional borrowing (as per the red line) to fund the new build programme and the revised levels of additional service enhancements. In future years when the service enhancements increase (to the previously affordable levels) the debt levels increase to the Government imposed debt cap. The dotted blue line demonstrates the original projection for the HRA debt prior to the rent adjustment but still allowing for phases 1 to 6 of the new build scheme and the £570,000 annual revenue service enhancements and the additional allowances in Section 3.11. Therefore the gap between the red and dotted blue lines demonstrates the greater levels of borrowing, which are in fact capped by the Government imposed debt cap.

3.14 The above position is slightly masked by the fact that the HRA is making contributions to the Self-Financing Reserve in order to repay some of the loans, though the Reserve will hold no balances from Year 28 onwards.

Base Position £'000 – HRA Capital Financing Position



3.15 The red vertical lines in the graph above show the required levels of expenditure for investment in the stock, Phases 1-6 of the new build programme and additional service enhancements. The horizontal blue line shows the resources available through in-year surplus and borrowing (restricted to the debt cap). From Year 13 of the plan (due to the combination of greater levels of service enhancements and the debt cap) the levels of investment are unaffordable. It is only from Year 25 where repayments of debt (from using balances built up in the Self-Financing Reserve) mean that available resources are greater than the in-year spend requirements and the surplus resources are used to tackle the prior-years shortfalls.

3.16 Again the use of the Self-Financing Reserve slightly masks the true position in that whilst shortfalls are demonstrated in the graph above, there are balances held in the Reserve.

3.17 Within the various options available below to tackle the reduction in rents, we re-visit the contribution and operation of the Self-Financing Reserve.

4. The Options Available

4.1 In discussions with officers there are five proposed options in which to achieve a balanced and viable Business Plan, with the key objectives of the HRA repaying the scheduled loans (resulting in a negative HRA CFR of £31.881million), and the maximisation of the '1-4-1' receipts currently held. Within all of the options we have ensured that there are sufficient resources to meet existing planned capital expenditure falling in each year.

4.2 It is important to note that as at April 2015 the projected uncommitted balances of the '1-4-1' reserve stands at £4.56million (based on past acquisitions and Phases 1 and 2 of the new build programme). These receipts will continue to increase if right to buy levels remain at higher levels than those assumed in the self-financing settlement, which we discuss later on in this review.

4.3 The options considered are:

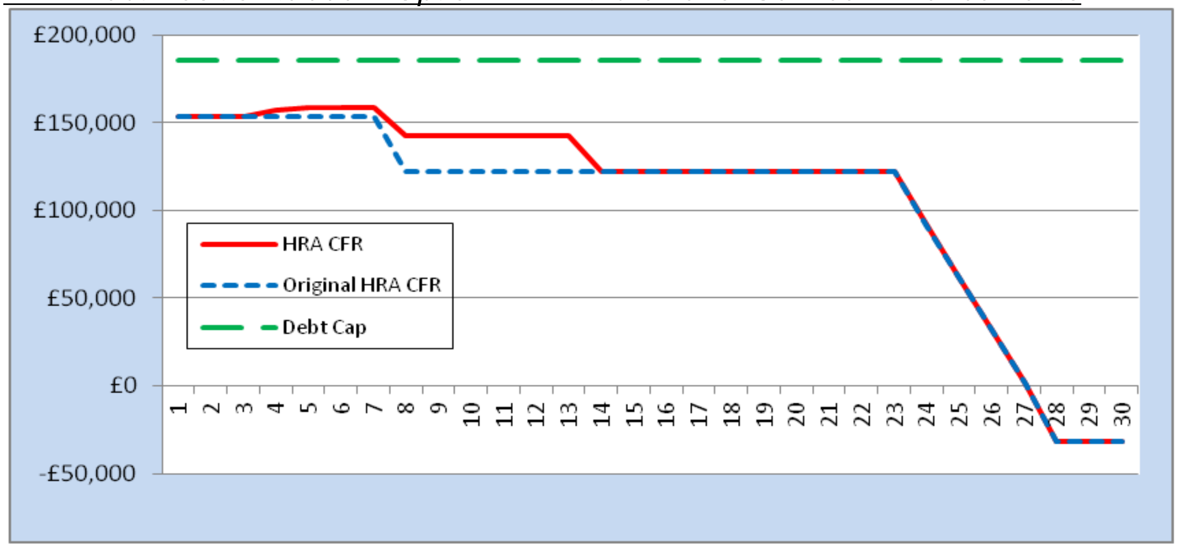
1. The complete withdrawal of service enhancements
2. To enable service enhancements and improvements at a level that does not require borrowing
3. To continue with a minimum of £1million in service enhancements and/or improvements per annum
4. To reduce the levels of new build in Phases 3 to 6
5. To ensure that no additional borrowing is undertaken but ensuring the new build programme is delivered by reducing capital investment in existing stock

4.4 <u>Option 1 – Withdrawal of Service Enhancements</u>

4.4.1 In this option we have removed both the £570,000 per annum service enhancements currently accounted for (but uncommitted) in revenue projections, in addition to the additional funding for service enhancements as identified in Section 3.11 from 2016.17 onwards.

4.4.2 In order to fund the new house building programme for Phases 1 to 6, for cash-flow purposes, there is a requirement to borrow in the early stages of this Plan as demonstrated in the graph below:

<u>HRA Debt Position £'000 – Option 1 – Withdrawal of Service Enhancements</u>

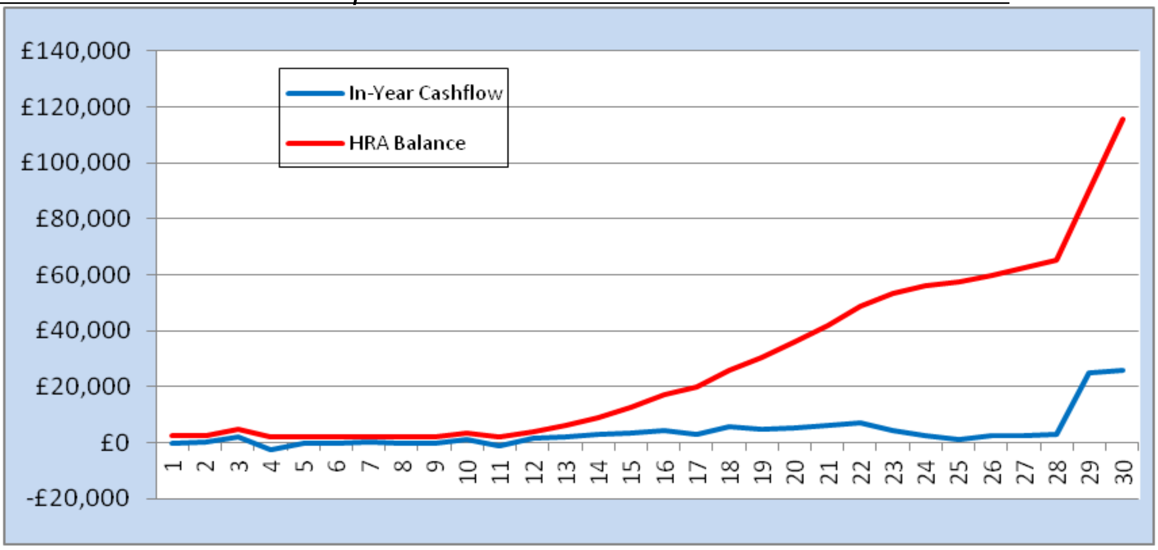


4.4.3 We have applied the required short-terms loans totalling £4.657million between Years 3 to 6 and a further £16.180million for the shortfall in meeting the £31.8million loan repayment scheduled for Year 7 (2021.22). The reduction in Year 7 of loan balances recognises the net £15.62million repayment of this original loan (i.e. the balance between £31.8million and £16.180million). According to our projections the HRA can afford to repay the total £20.837million of new loans by Year 14 therefore placing the HRA on course to repay its remaining loans as planned, with resources available.

4.4.4 The early year borrowing could be avoided by using some of the balances of the Self-Financing Reserve, though this would result in greater borrowing in Year 7.

4.4.5 The graph below demonstrates the projected HRA balances, taking into account the revised contributions to the Self-Financing Reserve:

HRA Balances £'000 – Option 1 - Withdrawal of Service Enhancements



4.4.6 This graph shows that as a result of allocating sufficient resources to repay the existing and additional debt in the early years of the Plan, the HRA builds up sufficient balances due to the withdrawal of service enhancements, which significantly increased in value in the latter years, as according to Section 3.11 above. From Year 28 the balances increase following the conclusion of the loan repayments where over the period of two years projected balances on the HRA would increase from £65.2million to £115.8million.

4.5 <u>Option 2 – Affordable Levels of Service Enhancements (Minimising Borrowing)</u>

4.5.1 This option is to define the level of affordable service enhancements without the need to borrow any additional money to that set out in Option 1 above.

4.5.2 As identified in Option 1 it would be impossible not to borrow in the early years of the Plan even with the eradication of service enhancements. However we have demonstrated that whilst additional borrowing of £20.837million (net £4.657million) would be required, this could be repaid within a relatively short period of time. However due to the size of the loan repayment in Year 7 of £31.8million, significant reductions in expenditure on either new build or investment in existing stock would be required. To put this into context, the investment in existing stock would have to be reduced by over 30% between Years 3 and 7 in order to avoid any additional borrowing and have sufficient resources to repay the loan in that period. We discuss the impact of reducing the new build programme as part of Option 4 further on in this review.

4.5.3 Using Option 1 as a basis we have modelled the maximum levels of service enhancements and improvements that could be introduced within the resources available.

4.5.4 The table below shows the levels of service enhancements in comparison with the revised set within Section 3.11:

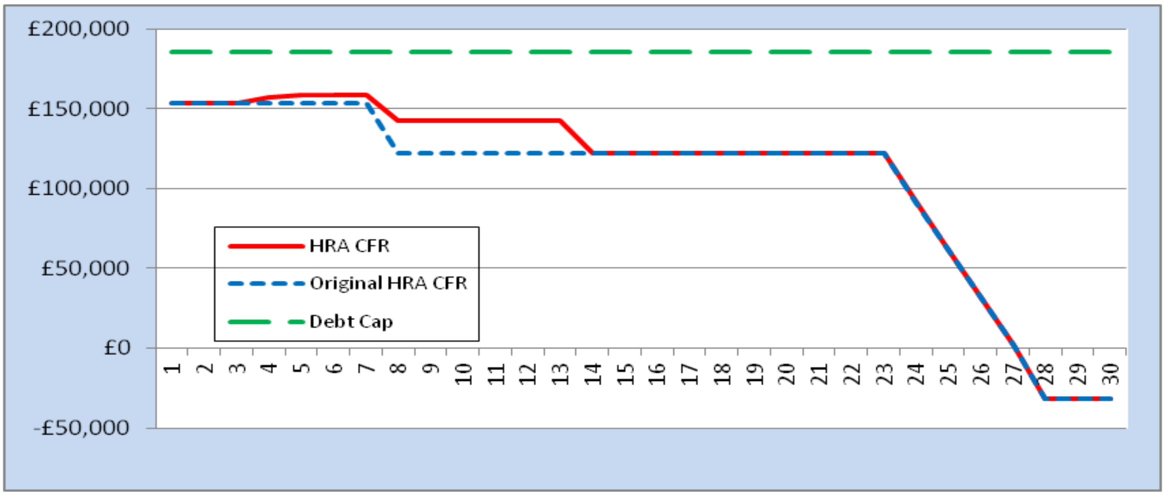
Ongoing Service Enhancements	2015.16 Business Plan (Pre-rent adjustment)*1,2	2015.16 Business Plan Option 2 (Post-rent adjustment)*1,3
April 2015 (1 year)	£370,000	£370,000
April 2016 (3 years)	£370,000	£-
April 2019 (3 years)	£560,000	£-
April 2022 (2 years)	£4,950,000	£-
April 2024 (1 year)	£7,200,000	£-
April 2025 (4 years)	£7,200,000	£1,300,000
April 2029 (5 years)	£8,900,000	£3,100,000
April 2034 (8 years)	£8,700,000	£1,450,000
April 2042 (3 years)	£8,700,000	£10,000,000
Total over 30 Years	**£180,560,000**	**£52,670,000**
Inclusive of Inflation	**£284,537,000**	**£89,998,000**

**Notes: 1. These values are at today's prices but are inflated within the Plan*
2. The Pre-Rent Adjusted Business Plan included in addition £570,000 per annual revenue service enhancements
3. The Option 3 Business Plan excludes the £570,000 revenue service enhancements

4.5.5 The impact of the rent policy can clearly be seen and the reduction of service enhancements between 2034 and 2042 is required in order to service the Self-Financing Reserve to fully repay the loans as and when they mature.

4.5.6 The graph below demonstrates again the projected borrowing position if Option 2 was selected.

HRA Debt Position £'000 – Option 2 – Affordable Levels of Service Enhancements (Minimising Borrowing)



4.5.7 As with Option 1 the additional borrowing required can be repaid back to the prior levels by Year 13 of the plan. Following this the provisions for service enhancements and or improvements can be introduced and increased through the Plan.

4.6 Option 3 – Provide a minimum of £1million per annum to the Housing Improvements and Service Enhancements Fund

4.6.1 In this option we have modelled a base £1million per annum, with inflation applied, from next year 2016.17. The principle behind this is not to necessarily spend this value but to provide a contingency through the existing Housing Improvements and Service Enhancements Fund to cover major works excluded from the current database. Examples of this might be minor/major estate regeneration or remodelling for sheltered schemes. So if these monies are not spent then they are there to cover any unforeseen circumstances and those identified in Section 6.

4.6.2 As with Options 1 & 2 there will be the necessity to borrow to fund these contributions. For the sake of simplicity and given the additional borrowing required we have opted to cease contributions in the early years to the Self-Financing Reserve.

4.6.3 Between Years 4 & 8 a total of £28.466million needs to be borrowed, which provides for the repayment of the £31.8million loan in Year 8 and the annual contributions. However, given the contributions to the Housing Improvements and Service Enhancements Fund the balance of these loans cannot be repaid until 2029.20 (Year 16).

4.6.4 From this period onwards we have modelled that sufficient contributions are made to the Self-Financing Reserve in order to repay the residual loans by Year 28.

4.6.5 The table below identifies the contributions to the improvement and or service enhancements:

Ongoing Service Enhancements	**2015.16 Business Plan (Pre-rent adjustment)*1,2**	**2015.16 Business Plan Option 3 (Post-rent adjustment)*1,3**
April 2015 (1 year)	£370,000	£370,000
April 2016 (3 years)	£560,000	£1,000,000
April 2019 (3 years)	£4,950,000	£1,000,000
April 2022 (4 years)	£7,200,000	£1,000,000
April 2025 (4 years)	£8,900,000	£2,000,000
April 2029 (5 years)	£8,700,000	£3,000,000
April 2034 (8 years)	£8,700,000	£-
April 2042 (2 years)	£370,000	£11,500,000
Total over 30 Years	**£180,560,000**	**£55,370,000**
Inclusive of Inflation	**£284,537,000**	**£88,845,000**

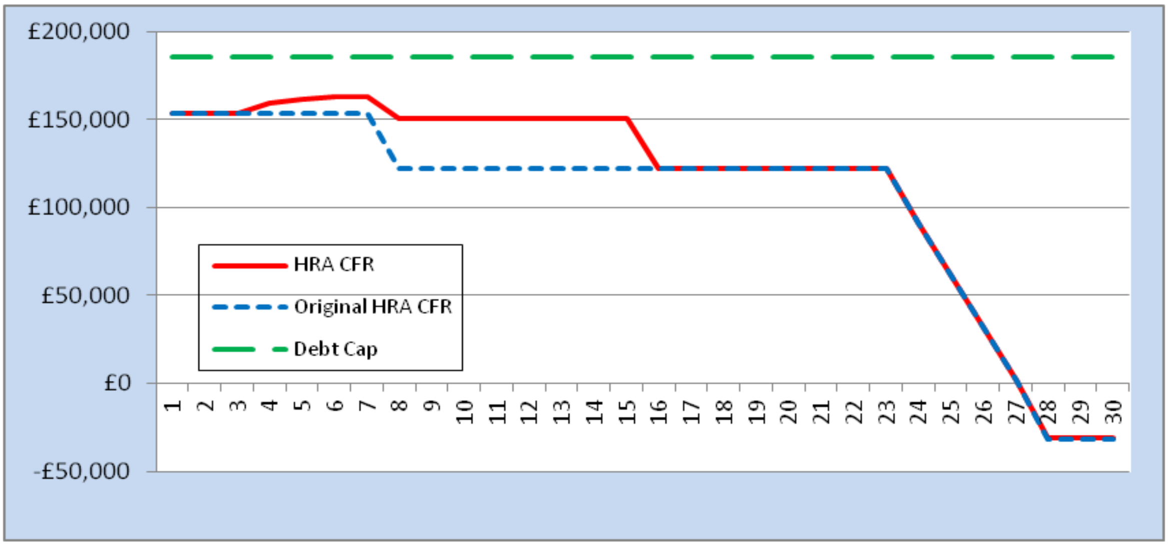
**Notes: 1. These values are at today's prices but are inflated within the Plan*

2. The Pre-Rent Adjusted Business Plan included in addition £570,000 per annual revenue service enhancements
3. The Option 3 Business Plan excludes the £570,000 revenue service enhancements

4.6.6 In overall spend terms, when taking inflation into account, Option 2 marginally delivers a greater value of contributions to the Service Enhancements and Improvements Fund. However, Option 3 provides a resource earlier into the Plan that therefore could be utilised earlier.

4.6.7 The graph below demonstrates the forecast debt position for Option 3.

HRA Debt Position £'000 – Option 3 – Minimum £1million Service Enhancements (per annum – increasing when affordable)



4.6.8 The above graph and text detail that an additional £28.466million is required in order to fund the initial £1million per annum contribution to the service enhancements and or improvements reserve. The additional borrowing can be repaid by Year 15 to bring the levels back into line with the previous Plan in order to repay debt and bring the HRA back to its position prior to Self-Financing.

4.6.9 If the Government enforced debt cap remains unchanged over the coming years there will still be capacity to borrow a further minimum of £22million should there be the need for unseen circumstances.

Option 4 – To reduce the level of expenditure for New House Building

4.7.1 We have split this option to demonstrate the required reduction in the new build programme, if no additional borrowing is assumed, if;

a. There are no service enhancements until after Year 9 of the Plan; or
b. That a £1million per annum contribution to the Service Enhancement and Housing Improvements Fund is required

4.7.2 Option 4a
Using the basis of Option 1 we have modelled the required reduction in the new build programme in order to prevent any additional borrowing and that the Self-Financing Reserve has sufficient funds to repay the £31.8million loan that falls due in Year 8.

4.7.3 In order to achieve this (inclusive of the removal of any provision for service enhancements) we calculate that only Phase 1 could be afforded, delivering only 23 of the 215 homes.

4.7.4 The major implication with this would be the return to the Government of '1-4-1' right to buy receipts that will and have accumulated. We estimate that this could be in the region of £7.329million. In addition under current legislation the return of such receipts would attract interest at a rate of 4% above base rate (0.5%) and is compounded from when they were originally received. We estimate this to be £1.034million and it is assumed that this would have to be met by the HRA, of which there are marginally sufficient resources to do so.

4.7.5 In addition to the interest charge and return of receipts, the Council would also have to cancel its agreement with the HCA for the £0.5million grant and would have paid for costs incurred to date. This, of course, is against the loss of providing new affordable homes.

4.7.6 Option 4b
Given that Option 4a, without any provision for service enhancements, decimates the new build programme it would prove impossible to fund the option of funding £1million per annum of contributions and therefore we see no reason to identify the borrowing that would be required to deliver this.

Option 5 – To reduce the level of capital expenditure in existing stock whilst delivering the new build programme to ensure no borrowing

4.8.1 A further option is to consider what action the Council would need to take in order to avoid any additional borrowing whilst still delivering the new build plan. This is in addition to the withdrawal of future uncommitted service enhancements.

4.8.2 As identified in Section 4.7.4, if the required level of new build (i.e. Phases 2 to 6) were not delivered, a potential £1.034million would have to be returned of receipts and interest to the Government along with the loss of the £0.5million HCA grant for Phase 2.

4.8.3 Therefore we consider that the Council should consider its new build programme ahead of its investment in existing stock, if no borrowing is stipulated, given the monies that would be lost.

4.8.4 In order to ensure that there is a correct provision made for the repayment of the £31.8million loan in Year 8 with no additional borrowing required, we have estimated that the following expenditure would need to be reduced from the capital investment in existing stock:

Year	Reduction Required to Capital Programme	% of Original Programme
4 - 2017.18	£3.606m	32%
5 - 2018.19	£3.813m	33%
6 - 2019.20	£3.978m	32%
7 - 2020.21	£3.991m	31%
8 - 2021.22	£4.036m	32%
TOTAL	**£19.424m**	**32%**

4.8.5 In direct comparison to Option 2, the reduction needed from the capital programme is less than the £20.837million, on account of no additional interest charges needing to be factored in.

4.8.6 Our projections show that, after Year 9, the HRA is able to meet its full in-year capital expenditure requirements and set aside provisions for debt repayment and there will be surpluses within the HRA that could be used to catch up on the shortfall of expenditure identified in section 4.8.4 and or consider a re-introduction of service enhancements.

4.8.7 Another option would be to reduce the levels of new build slightly to allow for a smaller reduction in capital expenditure, though this would carry the risk of having to return some right to buy receipts to the Government along with interest, depending on the level sales in the near future.

5. Potential Changes to the Welfare Reform and Work Bill

5.1 In Section 2.5 we have highlighted that currently the Bill states that rent levels as at the 8th July 2015 will be used for the basis of rent reductions for the four years from April 2016. Therefore, if the Council were to continue to re-let its properties at formula rent levels rather than at the outgoing level, the benefit would be lost from April 2016 onwards.

5.2 Epping Forest have been instrumental in working with the Association of Retained Council Housing (ARCH) in challenging the Government in allowing local authorities to continue with allowing re-let properties to be let at formula rent (obviously allowing for a 1% reduction to this).

5.3 At the time of writing, it is understood that an amendment to the Bill is being considered, though cannot be relied upon for the purposes of modelling. However, we estimate that should this be allowed to continue this would provide additional revenue in the region of £1.467million up to and including Year 8 of the Plan, given this a key milestone in terms of the first loan repayment.

6. Future Challenges

6.1 There are some further developments which the Government has proposed that will have an impact on the Plan, that cannot be costed yet, and we have identified these below.

6.2 As part of the Conservative Party's manifesto it was announced that the Right to Buy policy would extend to Housing Association tenants. However to enable this policy to work, Housing Associations would need to be fully compensated for the sale of their properties at the much higher discounted rates than the Right to Acquire rates currently applied. This is because the Government has to demonstrate that it does not have overall control of the assets of Housing Associations or else their debt, some £60billion, would be considered as public borrowing. So in order to avoid this, full compensation has to be paid to Housing Associations so there is no demonstrable loss.

6.3 In order to fund these compensation payments the Conservative manifesto detailed that Local Authorities would be forced to sell their "high-value" voids, with the Government collecting the majority of the receipt to fund this policy.

6.4 Initial information produced prior to the election with regards to how a high value void would be identified was by region, not at a local level. This would see authorities in higher value areas (such as Epping Forest) selling more stock in a region than those with lower values.

6.5 It is clear that since this Government took power much more work is required around how the policy would work for both Local Authorities and Housing Associations. This is still in development and may appear closer to when the new Housing Bill is published later this Autumn.

6.6 We therefore expect a consultation to be published that will determine how at a local level a property could be considered high value but also how the receipt will be treated, given that part should be retained by the Local Authority, but also how much will be pooled for the Housing Association compensation and contributions for brownfield site development.

6.7 Given this position it is difficult for us to model any potential impact of these sales of high value voids and whether match funding is required, as with the current '1-4-1' reserve arrangements. Therefore we need to identify this as a risk to the Business Plan in terms of loss of income and the need for additional expenditure on replacement. The simple contingency plan to meet any net loss in rental income would be to either reduce provision for service enhancements and/or increase borrowing further.

6.8 The Government is also introducing a 'Pay to Stay' policy which means that properties that have household income over £30,000 per annum will be subject to market rent (or near market rent) rather than the current social rent. It is anticipated that a sliding scale will be introduced where, if the income is £40,000 or over, 100% of market rent should be charged. The onus will be on landlords to identify the tenants affected through changes to tenancy agreements to supply earnings information, which will obviously involve additional time and costs to the current housing service. Apart from this cost, the Government's proposals should have a neutral effect on the Council's Plan, since the potential additional income is forwarded to the Government and not for the Council to retain, unlike with Housing Associations.

7. Commentary

7.1 This paper provides officers and members with options to consider against the backdrop of the Government's new rents policy.

7.2 The key conclusions that need to be drawn from this is that, even with removing service enhancements, but delivering the new house building programme, there will be the need for some short to medium term borrowing. The alternative would be to reduce the projected levels of investment in the current stock and re-profile this to later years within the Plan.

7.3 It must be remembered that the loans arranged to finance the original self-financing transaction of £185.6million were done on the basis of:

- Rents that would increase above the rate of inflation
- That existing rents would eventually move to their formula rent
- Right to Buy levels would have been less than assumed in the self-financing calculation

Instead we have seen a complete overhaul of the rents system, which has stripped the HRA of up to a potential £225.8million. The additional loss of stock through Right to Buy does not fully compensate the HRA and, of course, replacement housing costs the HRA 70% of the build costs.

7.4 Therefore it is unavoidable that to deliver the new affordable homes programme, and even make some provision for service enhancements or improvements, that borrowing will be required to provide resources within the Plan, particularly in the early years.

7.5 A further consideration is that if additional borrowing is not preferred, Option 4a has identified that there is the potential for £1.034million in interest charges to be paid to the Government for non-use of receipts. Whilst the additional borrowing in Option 1 would cost in the region of £4.04million, it would deliver in excess of £32.5million of investment in new homes.

7.6 Whilst we have identified the risks that the Plan faces in terms of sale of high value voids, possibly partially offset by being able to re-let current properties at formula rent, there is no immediate action that Epping Forest need to take now.

7.7 Therefore the options and associated results can be considered by the Council at this stage, but they do not need to be enacted upon at present. This is demonstrated in each of the options where Year 4 (2017.18) is perhaps when decisions will need to be made in terms or borrowing or reducing expenditure.

8. Extending the New Build Programme

8.1 In 2014 we provided a funding report on extending the then new build programme which included Phases 3 to 6 to ensure that the additional homes proposed could be afforded.

8.2 We modelled an additional set of Phases, 7 to 10, which could deliver a further 105 properties. At that stage we demonstrated that in order to deliver the properties in addition to Phases 3 to 6 that additional borrowing would be required.

8.3 The same holds true whatever the option chosen from those identified above. We have modelled the additional properties within Phases 7 to 10 for each option and the debt cap is not breached, and with adjustments to future service enhancements and improvements the plan can still repay its loans within the 30 year period.

Simon Smith
September 2015

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Report to: Finance and Performance Management Cabinet Committee

Report Reference: FPM-009-2015/16
Date of Meeting: 17 September 2015

Epping Forest District Council

Portfolio: **Governance and Development Management**

Subject: **Key Performance Indicators 2015/16 Q1 Performance**

Responsible Officer: **Barbara Copson (01992 564042)**

Democratic Services Officer: **Rebecca Perrin (01992 564532)**

Recommendations/Decisions Required:

That the Committee review Quarter 1 performance for the Key Performance Indicators adopted for 2015/16.

Executive Summary:

The Council is required to make arrangements to secure continuous improvement in the way in which its functions and services are exercised, 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, is adopted each year. Performance against all of the KPIs is reviewed on a quarterly basis

Reasons for Proposed Decision:

The KPIs provide an opportunity for the Council to focus attention on how specific areas for improvement will be addressed, and how opportunities will be exploited and better outcomes delivered.

It is important that relevant performance management processes are 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 for Action:

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

Report:

1. A range of thirty-six Key Performance Indicators (KPI) was adopted for 2015/16 in March 2015. The KPIs are important to the improvement of the Council's services and comprise a combination of former statutory indicators and locally determined performance measures. The aim of the KPIs is to direct improvement effort towards services and the

national priorities and local challenges arising from the social, economic and environmental context of the district.

2. Progress in respect all of the KPIs is reviewed by Management Board and overview and scrutiny at the conclusion of each quarter, and service directors review KPI performance with the relevant portfolio holder(s) on an on-going basis throughout the year. Select Committees are each responsible for the review of quarterly performance against specific KPIs within their areas of responsibility.

3. Improvement plans are produced for all of the KPIs each year, setting out actions to be implemented in order to achieve target performance, and to reflect changes in service delivery. In view of the corporate importance attached to the KPIs, the improvement plans are agreed by Management Board and are also subject to ongoing review between the relevant service director and Portfolio Holder over the course of the year.

Key Performance Indicators 2015/16 – Quarter 1 Performance

4. The position with regard to the achievement of target performance for the KPIs at the end of the first quarter (30 June 2015), was as follows:

(a) 22 (61%) indicators achieved target at the end of Q1; and
(b) 14 (39%) indicators did not achieve target at the end of Q1; although 3 (8%) of these KPIs performed within the agreed tolerance for the indicator.
(c) 27 (75%) of indicators are currently anticipated to achieve the cumulative year-end target.

5. A headline Q1 KPI performance report for 2015/16 is attached for the consideration of the Committee as Appendix 1 to this agenda. Detailed performance reports in respect of each of the KPIs are being considered by the individual select committees during the current cycle of meetings.

6. The 'amber' performance status used in the KPI report identifies those indicators that missed the agreed target for the year, but where performance was within an agreed tolerance or range (+/-). The KPI tolerances were agreed by Management Board when targets for the KPIs were set in February 2015.

7. The Committee is requested to review Q1 performance for the 2015/16 set of KPIs. Any matters raised by the Committee in respect of KPI performance, will be reported to the appropriate select committee.

Resource Implications:

Resource requirements for actions to achieve specific KPI performance for will have been identified by the responsible service director and reflected in the budget for the year.

Legal and Governance Implications:

There are no legal or governance implications arising from the recommendations of this report. Relevant implications arising from actions to achieve specific KPI performance will have been identified by the responsible service director.

Safer, Cleaner, Greener Implications:

There are no implications arising from the recommendations of this report in respect of the Council's commitment to the Climate Local Agreement, the corporate Safer, Cleaner, Greener initiative, or any crime and disorder issues within the district. Relevant implications arising from actions to achieve specific KPI performance will have been identified by the responsible service director.

Consultation Undertaken:

The indicators and targets have been considered by Management Board during August 2015.

Background Papers:

First quarter KPI submissions are held by the Performance Improvement Unit.

Impact Assessments:

Risk Management

There are no risk management issues arising from the recommendations of this report. Relevant issues arising from actions to achieve specific KPI performance will have been identified by the responsible service director.

Due Regard Record

This section shows which groups of people are affected by the subject of this report. It sets out how they are affected and how any unlawful discrimination they experience can be eliminated. It also includes information about how access to the service(s) subject to this report can be improved for the different groups of people; and how they can be assisted to understand each other better as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

There are no equality implications arising from the recommendations of this report. Relevant implications arising from actions to achieve specific KPI performance will have been identified by the responsible service director.

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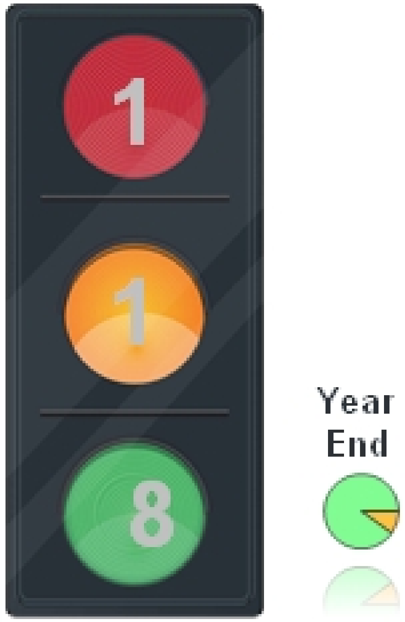
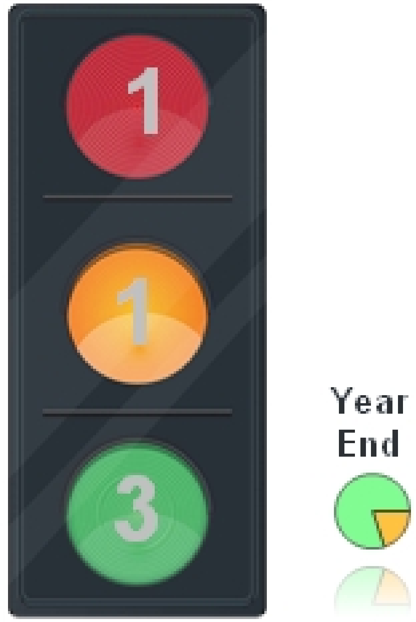
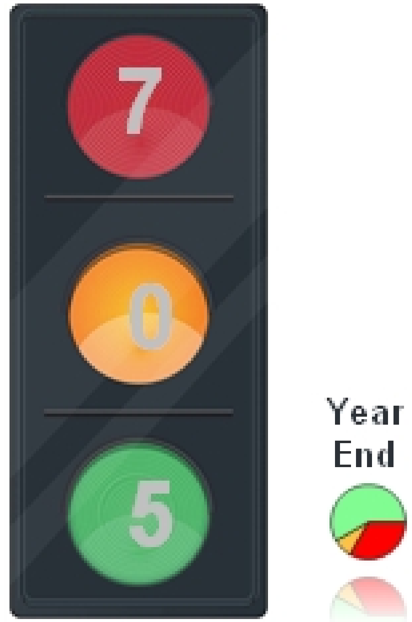
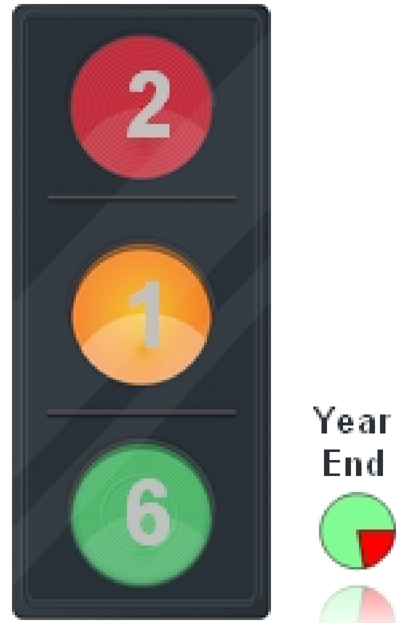
Epping Forest District Council Key Performance Indicators 2015/16 - Summary Dashboard & Performance Report:

Overall summary of KPIs achieving target	Communities Directorate	Governance Directorate	Neighbourhoods Directorate	Resources Directorate

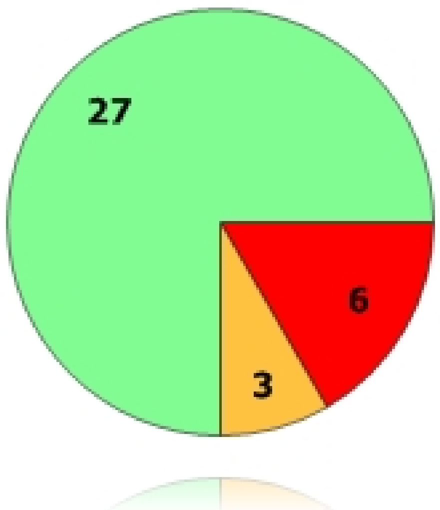








Predicted Level of Year End Target Achievement (All KPIs)



Headlines - Reflecting on our performance

Q1 2015/16

22 out of 36 Key Performance Indicators have achieved target at the end of the first quarter, representing 61% of the full set.

Of the 14 KPIs which missed their target, 3 missed within their amber tolerance margin.

Quarterly Indicators		Quarter 1 Tgt	Quarter 1 Actual	Quarter 2 Tgt	Quarter 2 Actual	Quarter 3 Tgt	Quarter 3 Actual	Quarter 4 Tgt	Quarter 4 Actual	Is year-end target likely to be achieved?
Communities Quarterly KPIs										
COM001	(Housing rent) (%)	98.00%	100.87%	98.00%		98.00%		98.00%		Yes
COM002	(Void re-lets) (days)	37.0	38.0	37.0		37.0		37.0		Yes
COM003	(Tenant satisfaction) (%)	98.00%	100.00%	98.00%		98.00%		98.00%		Yes
COM004	(Temp. accommodation) (no.)	65	73	65		65		65		Uncertain
COM005	(Non-decent homes) (%)	0.00%	0.00%	0.00%		0.00%		0.00%		Yes
COM006	(Modern Homes Std) (%)	825	843	1,650		2,475		3,300		Yes
COM007	(Emergency repairs) (%)	99%	100%	99%		99%		99%		Yes
COM008	(Responsive repairs) (days)	7.0	6.0	7.0		7.0		7.0		Yes
COM009	(Emergency repairs) (%)	98%	98%	98%		98%		98%		Yes
COM010	(Calls to Careline) (%)	97.50%	99.91%	97.50%		97.50%		97.50%		Yes
Governance Quarterly KPIs										
GOV004	(Major planning) (%)	75.00%	100.00%	75.00%		75.00%		75.00%		Yes
GOV005	(Minor planning) (%)	90.00%	84.62%	90.00%		90.00%		90.00%		Uncertain
GOV006	(Other planning) (%)	94.00%	93.96%	94.00%		94.00%		94.00%		Yes
GOV007	(Appeals - officers) (%)	19.00%	0.00%	19.00%		19.00%		19.00%		Yes
GOV008	(Appeals - members) (%)	50.00%	50.00%	50.00%		50.00%		50.00%		Yes
Neighbourhoods Quarterly KPIs										
NEI001	(Non-recycled waste) (kg)	100	95	199		299		400		Yes
NEI002	(Household recycling) (%)	64.58%	61.00%	62.53%		61.51%		60.00%		No
NEI003	(Litter) (%)	8%	11%	8%		8%		8%		No
NEI004	(Detritus) (%)	10%	14%	10%		10%		10%		No
NEI005	(Neighbourhood issues) (%)	95.00%	96.22%	95.00%		95.00%		95.00%		Yes
NEI006	(Fly-tip investigations) (%)	90%	95%	90%		90%		90%		Yes
NEI007	(Fly-tip: contract) (%)	90%	91%	90%		90%		90%		Yes
NEI008	(Fly-tip: non-contract) (%)	90%	68%	90%		90%		90%		Uncertain
NEI009	(Noise investigations) (%)	90%	88%	90%		90%		90%		Yes
NEI010	(Increase in homes) (no.)	70	43	111		182		230		Yes
NEI011	(Commercial rent arrears) (%)	3.00%	5.19%	3.00%		3.00%		3.00%		No
NEI012	(Commercial premises let) (%)	98.00%	98.98%	98.00%		98.00%		98.00%		Yes
Resouces Quarterly KPIs										
RES001	(Sickness absence) (days)	1.54	2.02	3.20		4.95		7.00		No
RES002	(Invoice payments) (%)	97.00%	95.00%	97.00%		97.00%		97.00%		No
RES003	(Council Tax collection) (%)	27.10%	27.56%	51.98%		77.00%		96.50%		Yes
RES004	(NNDR Collection) (%)	28.38%	28.52%	53.04%		78.09%		97.20%		Yes
RES005	(New benefit claims) (days)	22.00	22.56	22.00		22.00		22.00		Yes
RES006	(Benefits changes) (days)	10.00	7.03	10.00		10.00		6.00		Yes
RES009	(Website Availability) (%)	99.60%	99.96%	99.60%		99.60%		99.60%		Yes
RES010	(Website Broken Links) (%)	94.1%	95.5%	94.1%		94.1%		94.1%		Yes
RES011	(Website Navigation) (%)	79.9%	82.0%	79.9%		79.9%		79.9%		Yes

Report to: Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report reference: FPM-010-2015/16
Date of meeting: 17 September 2015

Portfolio: **Finance**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators 2014/15**

Responsible Officer: **Simon Alford (01992 564455)**

Democratic Services Officer: **Rebecca Perrin (01992 564532)**

Recommendations/Decisions Required:

(1) That Members note the 2014/15 outturn for Prudential Indicators shown within the appendices; and

(2) That Members note the Treasury Management Outturn Report for 2014/15.

Executive Summary:

The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2014/15, and the actual Prudential Indicators for 2014/15.

During the year the Council has financed all of its capital activity through capital receipts, capital grants and revenue contributions. There has been no additional borrowing in the year to add to the £185.456m taken out previously through the Public Works Loan Board (PWLB) to finance the payment in relation to the self-financing of the HRA. The Council achieved its targets for its treasury and prudential indicators.

This report and the appendices will be considered by the Audit and Governance Committee on 21 September.

Reasons for Proposed Decision:

The report is presented for noting as scrutiny is provided by the Audit and Governance Committee who make recommendations on amending the documents, if necessary.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for reporting on the treasury outturn on the financing and investment activity for the previous year.

2. The report attached at Appendix 1 shows the Treasury Management Outturn Report for 2014/15 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital activity for the year and how it was financed

3. The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available, or a decision is taken not to apply capital resources, the expenditure will give rise to a borrowing need.

4. The Council has fully financed its capital expenditure. Similarly to revenue expenditure, capital expenditure is split between the Statutory Housing Revenue Account (HRA) and other expenditure. The actual capital expenditure and financing is shown below in the table.

	2014/15	2014/15	**2014/15**
Capital Expenditure	Estimated £m	Revised £m	**Outturn £m**
Non-HRA capital expenditure	8.629	8.842	**5.648**
HRA capital expenditure	17.823	15.250	**13.850**
Total Capital Expenditure	**26.452**	**24.092**	**19.498**
Financed by:			
Capital grants	2.346	1.638	**1.149**
Capital receipts	7.895	7.578	**5.402**
Revenue	16.211	14.876	**12.947**
Total Resources Applied	**26.452**	**24.092**	**19.498**
Closing balance on:			
Capital Receipts	5.875	7.661	19.534
Major Repairs Reserve	6.532	10.127	11.154

The impact on the Council's indebtedness for capital purposes

5. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council has previously borrowed £185.456m to finance the payment to Government for housing Self-Financing. This resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No further borrowing has been incurred in 2014/15.

CFR	2014/15 Estimated £m	2014/15 Revised £m	**2014/15** **Outturn** **£m**
Non-HRA	48.6	29.6	**29.6**
HRA	155.1	155.1	**155.1**
Closing balance	**203.7**	**184.7**	**184.7**

6. The Council's policy on Minimum Revenue Provision (MRP), a mechanism for the amount to be set aside from revenue for the repayment of the debt principal, was approved by Council on 20 February 2014.

7. The Authority's CFR at 31 March 2012 became positive as a result of Housing self-financing. This would normally require the local authority to charge MRP to the General Fund in respect of non-HRA capital expenditure funded from borrowing. CLG has produced regulations to mitigate this impact and as such under Option 2 (the CFR method) there is no requirement to charge MRP.

The Council's overall treasury position

8. The table below shows the Council's treasury position for 2014/15.

Treasury position	31/3/2014 £m	**31/3/2015** **£m**
Total external Debt	**185.456**	**185.456**
Short Term Investments	48.7	62.4
Fixed Term Investments	10.0	5.0
Total Investments	**58.7**	**67.4**
(Net Borrowing) / Net Investment Position	**(126.756)**	**(118.056)**

Icelandic Investment

9. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank, a UK subsidiary of an Icelandic bank, at that time.

10. The return is now 94% it is likely that a further distribution will be received in October or November 2015. Estimated final recovery will be 98 to 100%.

Prudential Indicators

11. The Council confirmed its adoption of the CIPFA Code of Treasury Management at its Council meeting on 20 February 2014. The Code was originally adopted on 22 April 2002.

a) **Authorised Limit** – This is the maximum amount of external debt that can be outstanding at one time during the financial year.

b) **Operational Boundary** – This is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity for the financial year.

c) **Upper Limits for Interest Rate Exposure** – This allows the Council to manage the extent to which it is exposed to changes in interest rate.

d) **Maturity Structure of Fixed Rate Borrowing** – This is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

e) **Total principal sums invested for periods longer than 364 days** – This is to allow the Council to manage the risk inherent in investments longer than 364 days.

12. The table below shows the outturn against the strategy.

	2014/15 TMSS	**2014/15 Outturn**
a) Authorised limit	£230m	**£185.456m**
b) Operational boundary	£204m	**£185.456m**
c) Upper limits for fixed rate exposure		
- Debt	100%	**83%**
- Investment	(100%)	**(87)%**
Upper limits for variable rate exposure		
- Debt	25%	**17%**
- Investment	(75%)	**(13)%**
d) Maturity structure of fixed rate borrowing		
- Under 12 months	0% - 100%	**0%**
- 12 months to 5 years	0% - 100%	**0%**
- 5 years to 10 years	0% - 100%	**0%**
- 10 years to 20 years	0% - 100%	**0%**
- 20 years to 30 years	0% - 100%	**100%**
e) Total principal sums invested for periods longer than 364 days	£30m	**£5m**

13. The Waste Procurement Contract has benefitted from the Council providing "Prudential Borrowing" to the successful contractor, just over £4m for the provision of new vehicles.

Resource Implications:
Interest rates stayed low throughout 2014/15 which resulted in the investment interest of £0.446m. The outturn was in line with the revised estimate of £0.423m.

Legal and Governance Implications:
The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2014/15);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external Treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2014/15 and the Treasury Management Strategy for 2014/15 which was approved by Council on 20 February 2014.

Risk Management:
As detailed in the appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people affected by this report which is not directly service related.

Appendix 1

Annual Treasury Outturn Report

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (the "Code") requires that Local Authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Council's Treasury Management Strategy for 2014/15 was approved by Full Council on 20th February 2014 and can be accessed via the Council's website.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

External Context

Growth and Inflation: The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to $44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

Labour Market: The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

UK Monetary Policy: The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament, but resulted in a small majority for the Conservatives.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone has receded. In August 2015 it reached a deal with its international creditors for a third bailout that would provide aid worth up to 86 billion euros, or about $94.4 billion, in exchange for harsh austerity terms, but substantial debt relief has been called for by the International Monetary Fund.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by $10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough to weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

Market reaction: From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission through into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

Local Context

At 31/03/2015 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £184.7m, while usable reserves and working capital which are the underlying resources available for investment were £114.9m.

At 31/03/2015, the Council had £185m of borrowing and £67.4m of investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of £10m.

The Council has an increasing CFR over the next few years due to the capital programme, but reducing investments, and will therefore be required to borrow between £20m and £50m over the forecast period, depending on the Council's decisions on the use of Capital Resources.

Borrowing Strategy

At 31/03/2015 the Council held £185m of loans, no change from the previous year, as part of its strategy for funding Self-Financing for Housing.

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

Arlingclose assists the Council with this 'cost of carry' and breakeven analysis.

There have been significant items of capital expenditure approved by the Council during 2015/16 that were not contained within the original Capital Programme. For example the supplementary capital estimate approved by Council in June 2015 for £30.6m for the Langston Road Retail Development. There are also demands for capital resources from the Budget effects on the HRA Business Plan, possibly £15m, and the requirements of the Leisure Contract Procurement, possibly £11m to £15m. These two projects are still being developed and will subsequently go to Cabinet for approval.

Arlingclose are also advising on our borrowing decisions. We are likely to borrow in 2015/16 and / or 2016/17.

Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2015 £m	Avg Rate % and Avg Life (yrs)
CFR	184.7				184.7	
Short Term Borrowing[1]	0	0	0	0	0	
Long Term Borrowing	185.5	0	0	0	185.5	3% - 22.5yrs
TOTAL BORROWING	185.5	0	0	0	185.5	
Other Long Term Liabilities	0	0	0	0	0	
TOTAL EXTERNAL DEBT	185.5	0	0	0	185.5	
Increase/ (Decrease) in Borrowing £m					0	

LOBOs: The Council holds none.

Debt Rescheduling: The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

[1] Loans with maturities less than 1 year.

Abolition of the PWLB: In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The Council intends to use the PWLB's replacement as a potential source of borrowing if required.

Investment Activity

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Council's investment balances have ranged between £58.1 and £70.5 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/03/2015 £m	Avg Rate/Yield (%) and Avg Life years)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	43.7	73.0	69.3	47.4	0.60%-123 days
Long term Investments - Banks and Building Societies with ratings of A+ or higher - Local Authorities	10.0	0	5.0	5	1.30%-624 days
Money Market Funds	5	26.0	16.0	15	0.45%
TOTAL INVESTMENTS	58.7	99.0	90.3	67.4	
Increase/ (Decrease) in Investments £m				8.7	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2014	A+	5.16	AA-	3.95
30/06/2014	A+	5.28	AA-	4.20
30/09/2014	A+	5.07	AA-	3.87
31/12/2014	A+	5.03	AA-	3.70
31/03/2015	A+	5.10	AA-	3.98

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.

Scoring:
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.

The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, some of whose constituent banks are on the Council's lending list, is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Council's lending list for investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.

The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total – none of the failed banks featured on the Council's lending list.

In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits rose relative to other investment options. The Council's Treasury Strategy for 2015/16 includes the ability to diversify into Treasury Bills and Certificates of Deposit. In 2014/15 we continued to rely on unsecured deposits.

Budgeted Income and Outturn

The average cash balances were £22m during the year. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix B). New deposits in banks and building societies were made at an average rate of 0.60%. Investments in Money Market Funds generated an average rate of 0.45%.

The Council's original budgeted investment income for the year was £399,000. The Council's investment outturn for the year was £47,000 higher than the original budget due to investment balances being higher than anticipated.

Update on Investments with Icelandic Banks

The likely dividend on Heritable is now 98 to 100 pence in the pound and this will be confirmed and paid later in 2015. So we confidently expect to recover our principal. Which makes the original decision to place the bank into administration look rather strange.

Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2014/15 (see Appendix A), which were set in February 2014 as part of the Council's Treasury Management Strategy Statement.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the percentage of net principal borrowed or interest payable will be:

D=Debt I=Investment	**2014/15 %**	**2015/16 %**	**2016/17 %**
Upper limit on fixed interest rate exposure	100 D/100 I	100 D/100 I	100 D/100 I
Actual	83 D/87 I		
Upper limit on variable interest rate exposure	25 D/75 I	25 D/75 I	25 D/75 I
Actual	17 D/13 I		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

The amount of the portfolio in Variable Rate Investments fluctuated during the year, from 8% to 21%, an average of 13%.

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	**Lower**	**Actual**
Under 12 months	100%	0%	0
12 months and within 24 months	100%	0%	0
24 months and within 5 years	100%	0%	0
5 years and within 10 years	100%	0%	17%
10 years and within 20 years	100%	0%	0
20 years and within 30 years	100%	0%	83%
30 years and within 40 years	100%	0%	0
40 years and within 50 years	100%	0%	0
50 years and above	100%	0%	0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	**2015/16**	**2016/17**
Limit on principal invested beyond year end	£30m	£30m	£30m
Actual	£5m		

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit risk score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	**Actual**
Portfolio average credit score	A-	A+

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	**Actual**
Total cash available within 3 months	£20m	£50m

(£50m is the cash flowing in, but is not all available.)

Investment Training

EFDC Members - Training was held on 9 January 2014. An evening session from Arlingclose.
S Alford – Arlingclose Investment Workshop on 10 December 2014. Treasury Strategy update.
S Alford – Minimum Revenue Provision by Cipfa on 25 February 2015.

Prudential Indicators 2014/15

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000
General Fund	**5,648**	7,276	2,071
HRA	**13,850**	18,952	22,003
Total Expenditure	**19.498**	**26,228**	**24,074**
Capital Receipts	5,402	7,802	4,537
Government Grants	1,149	1,395	390
Reserves	7,526	11,969	11,235
Revenue	5,421	5,062	7,912
Borrowing	0	0	0
Leasing and PFI	0	0	0
Total Financing	**19,498**	**26,228**	**24,074**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
General Fund	**29.6**	59.6	59.6
HRA	**155.1**	155.1	155.1
Total CFR	**184.7**	**214.7**	**214.7**

The CFR is forecast to rise by £30m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	**185.456**	214.5	214.5
Finance leases	**0**	0	0
PFI liabilities	**0**	0	0
Total Debt	**185.456**	**214.5**	**214.5**

Total debt is not expected to remain above the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	**204.0**	225.0	225.0
Other long-term liabilities	**0**	0	0
Total Debt	**204.0**	**225.0**	**225.0**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	**230.0**	230.0	230.0
Other long-term liabilities	**0**	0	0
Total Debt	**230.0**	**230.0**	**230.0**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %
General Fund	**-0.93**	-0.06	-0.83
HRA	**15.78**	15.81	15.03

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the theoretical impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the previous capital programme proposed.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual Band D Council Tax	**3.94**	-0.28	0.15
HRA - increase in average weekly rents	**-1.59**	0.01	-16.80

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in April 2002.

Money Market Data and PWLB Rates **Appendix B**

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction, EFDC are eligible.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014		0.50		0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014		0.50		0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014		0.50		0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014		0.50		0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014		0.50		0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014		0.50		0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014		0.50		0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014		0.50		0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014		0.50		0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014		0.50		0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015		0.50		0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015		0.50		0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015		0.50		0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
Average		**0.50**		**0.39**	**0.44**	**0.43**	**0.50**	**0.67**	**0.95**	**1.09**	**1.38**	**1.79**
Maximum		**0.50**		**0.50**	**0.62**	**0.43**	**0.51**	**0.81**	**1.00**	**1.38**	**1.77**	**2.26**
Minimum		**0.50**		**0.24**	**0.36**	**0.42**	**0.46**	**0.56**	**0.84**	**0.80**	**0.96**	**1.18**
Spread		--		**0.26**	**0.26**	**0.01**	**0.05**	**0.25**	**0.16**	**0.58**	**0.81**	**1.08**

Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
31/10/2014	424/14	1.44	2.54	3.27	3.86	3.99	3.97	3.96
30/11/2014	465/14	1.39	2.27	2.94	3.54	3.68	3.66	3.65
31/12/2014	508/14	1.32	2.19	2.80	3.39	3.53	3.50	3.49
31/01/2015	042/15	1.30	1.94	2.44	2.98	3.12	3.08	3.06
28/02/2015	082/15	1.37	2.24	2.83	3.37	3.50	3.46	3.45
31/03/2015	126/15	1.31	2.06	2.65	3.20	3.33	3.29	3.28
	Low	1.28	1.91	2.38	2.94	3.08	3.03	3.02
	Average	1.47	2.56	3.28	3.85	3.96	3.93	3.92
	High	1.69	3.07	3.86	4.42	4.52	4.49	4.48

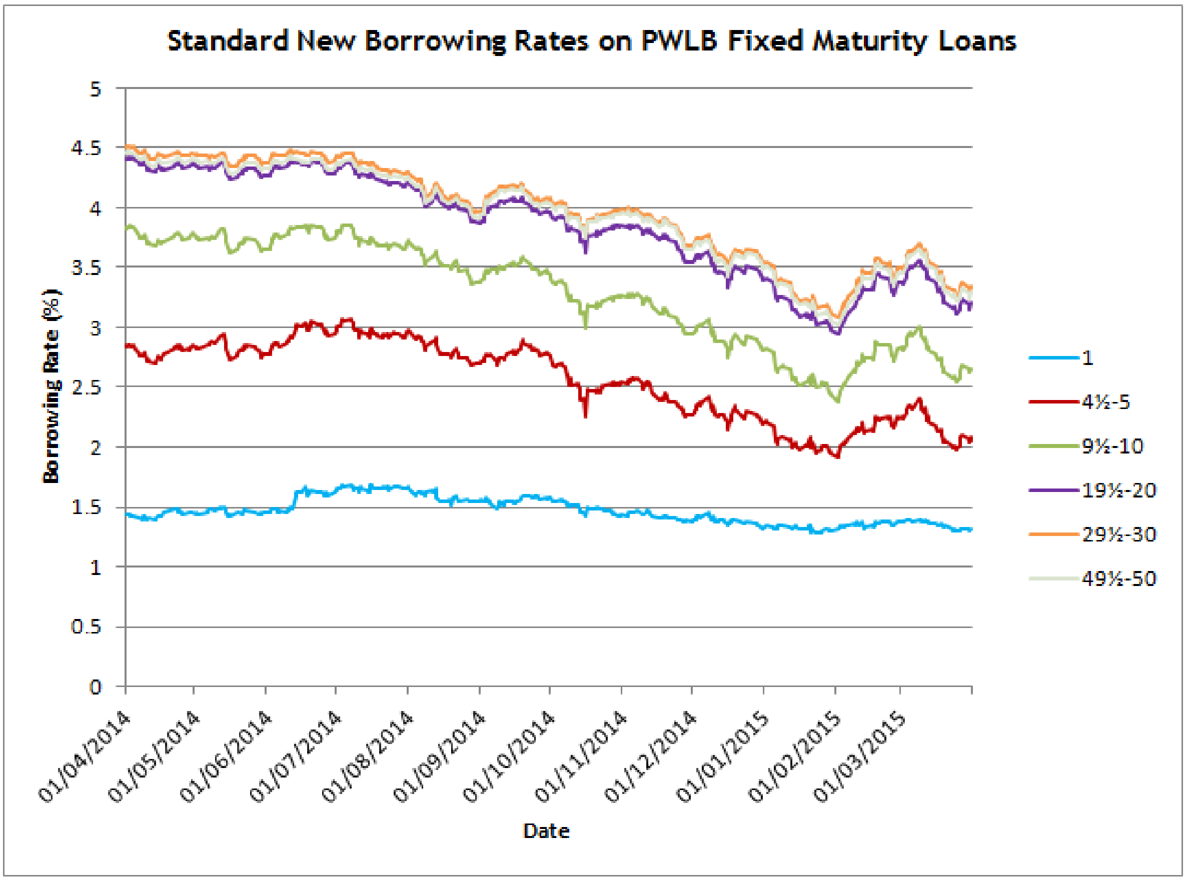


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
31/10/2014	424/14	1.97	2.59	3.29	3.66	3.86	3.96
30/11/2014	465/14	1.79	2.31	2.96	3.32	3.54	3.65
31/12/2014	508/14	1.72	2.23	2.82	3.17	3.39	3.50
31/01/2015	042/15	1.59	1.98	2.45	2.77	2.99	3.10
28/02/2015	082/15	1.78	2.29	2.84	3.16	3.38	3.48
31/03/2015	126/15	1.62	2.10	2.67	2.99	3.21	3.31
	Low	1.58	1.94	2.40	2.72	2.95	3.06
	Average	1.99	2.61	3.31	3.66	3.85	3.94
	High	2.39	3.13	3.89	4.26	4.43	4.50

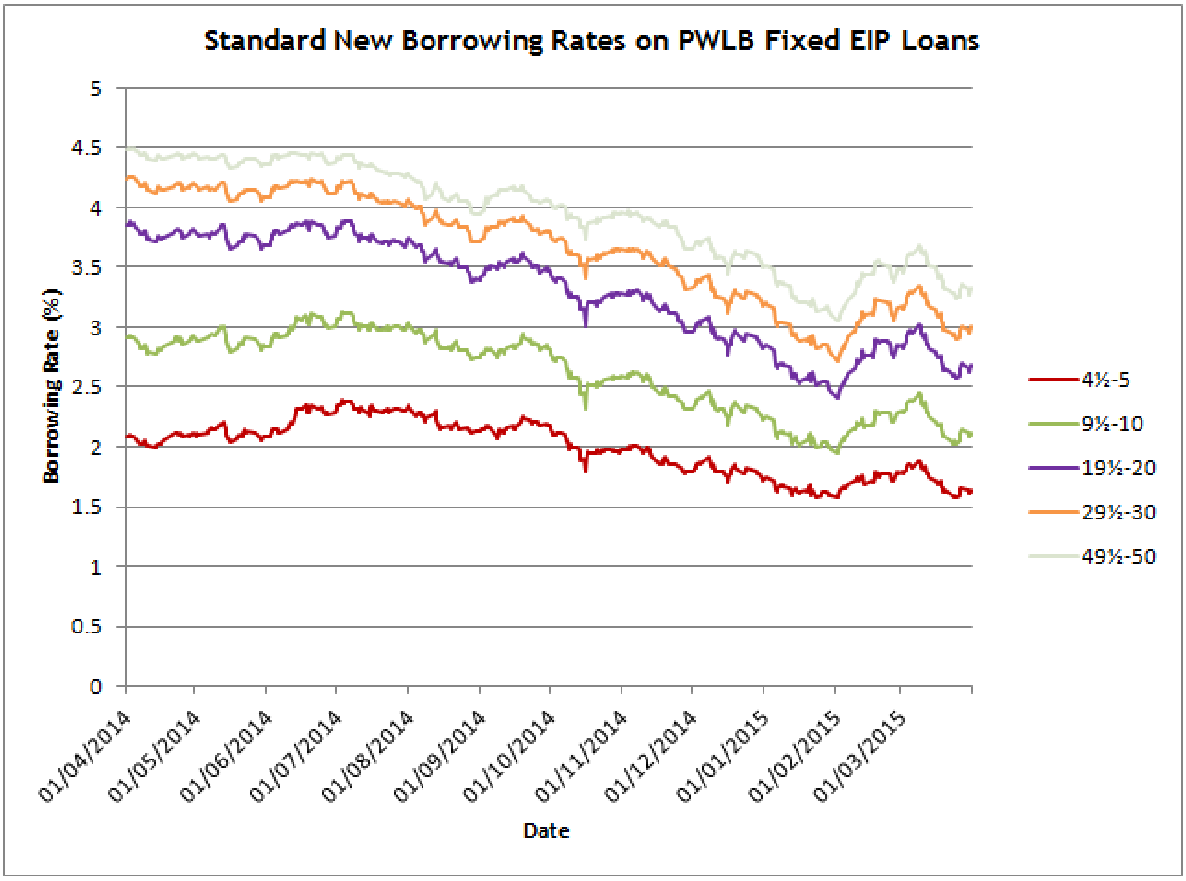


Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
31/10/2014	0.61	0.63	0.68	1.51	1.53	1.58
30/11/2014	0.58	0.64	0.69	1.48	1.54	1.59
31/12/2014	0.60	0.62	0.66	1.50	1.52	1.56
31/01/2015	0.59	0.60	0.65	1.49	1.50	1.55
28/02/2015	0.61	0.61	0.66	1.51	1.51	1.56
31/03/2015	0.62	0.62	0.66	1.52	1.52	1.56
Low	0.55	0.56	0.57	1.45	1.46	1.47
Average	0.59	0.61	0.66	1.49	1.51	1.56
High	0.64	0.68	0.76	1.54	1.58	1.66

Report to the Finance and Performance Management Cabinet Committee

Report reference: FPM-011-2015/16
Date of meeting: 17 September 2015

Epping Forest District Council

Portfolio: **Finance**

Subject: **Invest to Save Proposals**

Officer contact for further information: **Bob Palmer – (01992 – 564279)**

Democratic Services Officer: **Rebecca Perrin - (01992 – 564532)**

Recommendations/Decisions Required:

1. **To recommend to Cabinet the proposals to invest in additional grass cutting equipment and LED lighting in the car parks;**

2. **To consider the other proposals currently being developed and support them in principle if appropriate; and**

3. **To suggest other additional or alternative uses for the Invest to Save Fund.**

Executive Summary:

In setting the budget for 2015/16 Council decided that, as the balance on the General Fund Reserve exceeded the minimum requirement and further savings were required, £0.5 million should be transferred from the General Fund Reserve into an Invest to Save earmarked reserve. It was intended that this earmarked reserve would be used to finance schemes that would reduce the Continuing Services Budget (CSB) in future years.

Management Board have received two proposals so far and business cases are being developed for several other suggestions. It is appropriate at this stage to seek Member approval for these proposals and give Members the opportunity to put forward additional or alternative proposals.

Reasons for Proposed Decisions:

To seek Member approval for Invest to Save proposals before they are implemented.

Other Options for Action:

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

Report:

1. The Medium Term Financial Strategy (MTFS) approved by Council in February 2015 included CSB reductions of £1,089,000 for the revised 2014/15 estimates and £573,000 for 2015/16. Despite these significant savings it was anticipated that further reductions would be required of £250,000 in 2016/17 and £400,000 in 2017/18. The MTFS also predicted that at the end of 2018/19 the balance on the General Fund Reserve would still

comfortably exceed the minimum requirement set by Members. Given the adequacy of reserves and the need for savings, it was felt that the establishment of an Invest to Save Fund may help generate some new and creative ideas to deliver services differently or generate income.

2. The first business case to come forward was for a tractor and grass cutting equipment, see Appendix 1. This proposal seeks to invest approximately £30,000 to reduce the costly and inefficient use of contractors and also to generate income from hiring out the equipment when it is not being used on Council land. The amounts shown in the business case are still to be confirmed but indicate it may be possible to break even after three years and the equipment is anticipated to have a useful life of at least double that. This project has significant environmental benefits and also matches Member's ambitions for the Council to become more commercial in its outlook.

3. The second business case to come forward was for LED lighting in the Council's car parks, see Appendix 2. This proposal is to invest approximately £100,000 to reduce energy and maintenance costs. A payback period of approximately seven years is anticipated, although as with the first proposal the useful lives of the assets are expected to significantly exceed the payback period. In addition to the financial benefit the proposal will also improve the quality of the lighting and in turn this will enhance the quality of CCTV images.

4. Following the proposals above, several other ideas are currently being worked on. The replacement of the cash taking facility at Waltham Abbey Town Hall with a cash kiosk in the library has proved successful and other similar opportunities exist. Members previously agreed an outline business case for the cashiering service as part of the savings plans for 2016/17 during the budget cycle last year. It is intended to present a finalised business case to a subsequent Cabinet which will now include a bid for Invest to Save funding.

5. Members have previously indicated a lack of satisfaction with the services provided by the North Essex Parking Partnership (NEPP). Whilst the Council has no choice over on street parking it would be possible to take the service for off street parking back in house. It is anticipated that this could generate savings but some initial funding would be required to engage an external specialist to develop the business case. The Invest to Save Fund could be used to pay for this initial work. If this proposal is supported in principle a business case will be provided similar to those attached as appendices with anticipated costs and benefits.

6. The final idea currently being worked on is for a jointly funded master planning exercise to evaluate possible redevelopments at the Hill House site in Waltham Abbey. This is an exciting opportunity which could involve working with several other partners to co-locate services and ultimately generate savings. However, in order to take forward the project some external specialist advice will be required. As with the proposal above, if in principle support is forthcoming a business case will be completed.

7. In addition to the proposals set out above Members may have other ideas and so additional or alternative proposals are invited. If outline suggestions are made officers can evaluate and further develop any appropriate proposals.

Resource Implications:
The Invest to Save Fund contains £500,000 and the proposals suggested above can be contained within that amount. Depending on which, if any, proposals are supported future reductions in CSB should arise.

Legal and Governance Implications:
None.

Safer, Cleaner, Greener Implications:
The business case for the first proposal highlights significant environmental benefits.

Consultation Undertaken:
None.

Background Papers:
None.

Impact Assessments:

Risk Management
The risks for each proposal are set out on the attached appendices.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
2/09/15 Director of Resources	There are no equality implications arising from the specific recommendations of this report. Relevant implications arising from individual proposals or actions to achieve net savings will be identified and considered by the responsible Director.

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Appendix 1

Business Case Application for "Invest to Save Funding"

Title	Purchase of tractor and accessories for grass cutting etc. of Council owned land	**Saving or Income ? ("X")**	**Saving**	**Income**
			X	

Total amount required from the Invest to Save Fund	Apprx £30K Excluding flail/collector and back hoe arm		**Investment Required**	**Net Cashable Saving/Income**	**Payback Period (Years)**
Is the investment required capital or revenue?	C	**Month 1-12**	Apprx £30K	Apprx. £6-10K	Not confident to state at this time.
		Month 13-24	£0	Apprx. £6-10K	
Will the resultant savings / income be capital or revenue ?	R	**Month 25-36**	£0	Apprx. £6-10K recurring	
		Total	**£30K**	**£18-30K**	

The Proposal

Subject to feasibility. Purchase of a tractor to cut grass and carry out other maintenance on Council owned land e.g. Bobbingworth Nature Reserve, the Council's Flood Storage Areas, top of North Weald bund, Country care projects such as Linders Field, Home Mead, Old Shire Lane and potentially other areas. With appropriate attachments there is also the potential to use the plant for other works such as clearing heavier items/ blockages from ditches, cutting of hedges etc. Discussion held with Grounds Maintenance and Country care.
If a number of obstacles can be overcome, the figures stack up and a solid business case can be proven there may be the possibility of hiring out both the Council operative/s and the plant to other land owners.

The Financial Benefit Explained

Given the frequency that different sites need to be cut (weather dependent, type of cover on site etc.) it is a little difficult to predict the overall financial gain over a set period of time. However, the Council is paying contractors from the revenue budget, to carry out the work which can not only be expensive (£4,850 spent on grass cutting at Bobbingworth 2014/2015) but often delays occur when the work needs to be carried out. This is due to the fact that farmers need their land cut at the same time of the year. Phil Hawkins advises that many farmers use contractors to carry out this type of work because it is seen as a cheaper option; owning expensive items of machinery can be uneconomic if only used for part of the year. As a consequence, it can be difficult to get competitive quotes from contractors and delays often occur getting them on site due to the high demand at the same time.

Alignment with the Corporate Plan and/or Additional (Non-Financial) Benefits

The land can be cut at the optimum time and to the correct levels which will maximise the ecological, bio- diversity and environmental benefits. Country care are keen to ensure that areas are cut at the right time and in the correct manner – not too early so that the wildflowers have set seed, or too late, after undesirable flowers have.

Potential Obstacles to be Overcome

Staff resource to operate plant Storage of tractor and accessories Transport of plant to site H & S issues (lone working) Training re use of plant	Maintenance of plant Insurance Plant will be dormant over the winter months Absence of staff resource will mean the plant cannot be used Disposal of arisings

Risks (Financial and Others)

H & S, Insurance(theft), Maintenance and break down costs

Key Milestones and Target Timescales (from approval)

Milestone	**Target Period from Approval Date (Months)**
1) Feasibility	6 months
2) Tender	12 months
3)	

Proposal by	Susan Stranders Ex 4197	**Directorate**	Neighbourhoods

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Appendix 2

Business Case Application for "Invest to Save Funding"

Title	To convert lighting in Council owned car parks to Energy Efficient LED Lighting & Improved Time Control.	**Saving or Income ? ("X")**	**Saving**	**Income**
			X	

			Investment Required	**Net Cashable Saving/Income**	**Payback Period (Years)**
Total amount required from the Invest to Save Fund	£100K				
Is the investment required capital or revenue?	C	**Month 1-12**	£50K	£8K	7
		Month 13-24	£50K	£16K	
Will the resultant savings / income be capital or revenue ?	R	**Month 25-36**	£0	£16K recurring	
		Total	**£100K**	**£90K**	

The Proposal

The Council owns and operates a total of 17 car parks in the District. There are a total of 132 Lamp Columns, with a range of differing heights, lanterns, lamp wattages, control equipment etc. Many of the installations are age expired, require frequent maintenance, component parts are costly to procure and the energy consumption is significantly higher than with more modern LED Lighting.

Philips Lighting Ltd., under took a free of charge survey of all the car parks, spot verified by Facilities Management staff, confirming that the existing lighting is inefficient and the Council could upgrade to LED, save energy costs, by taking full advantage of the reduced energy consumption, and realise a significant reduction in future maintenance costs.

Following random night time inspections, it was noted that a number of columns are either out of lighting, or have incorrect lamp burning, and consequently the correct light output is eroded. Upgrading the out-dated lighting infrastructure will resolve such issues, and create better lighting levels.

The Council's formally adopted Parking Strategy approved improvement to lighting in car parks as well as enhanced CCTV systems. By opting for high reliability LED light sources the CCTV systems will offer a more enhanced image quality including the provision of colour images during the hours of darkness, which will assist with crime prevention.

The Financial Benefit Explained

In recent years the costs of installation of new LED lighting systems have significantly reduced. It is now considered by the industry and consumers that the time is right to invest in this technology. The Council has been switching to LED lighting, for example at the Civic Offices building, and the savings have already materialised. Switching to LED lighting in car parks will in addition to resulting in reduced energy costs, reduce maintenance costs.

Definite costs will not be available until a more detailed piece of work is carried out to assess costs of changing to LED lighting, upgrading the dated infrastructure like cables and lighting columns as well as considering the work required for the CCTV schemes.

At this stage it is estimated that £100,000 additional Capital budget will be required to install new LED lighting, associated infrastructure and CCTV systems. This could reduce if there are underspends in the budget allocated for the works to the car parks under the new Parking Strategy.

Alignment with the Corporate Plan and/or Additional (Non-Financial) Benefits

The Council adopted the new Car Parking Strategy in March 2015. The strategy included a number of new initiatives: a new parking tariff, new Pay and Display meters, environmental enhancements, new CCTV systems and new lighting arrangements. Improvement to the lighting provision and reliability in the Car Parks will result in better illumination during the hours of darkness, make the users feel safe, allow the Council to continue to keep the Park Safe accreditations.

Increased Uniformity of lighting distribution will enable installation of better quality CCTV systems which will enable better crime detection and serve as a deterrent.

Cabinet has already approved capital funding for the environmental enhancement of car parks as part of the adoption of the new Parking Strategy. It is estimated that an additional £100,000 will be required to carry out the proposals in this business case.

Potential Obstacles to be Overcome
Technical advice and expertise will be provided by Facilities Management, for lighting aspects, and Safer Communities Team for CCTV systems, if this were not possible, due to competing workload, then external expertise will be required, at additional cost.

Risks (Financial and Others)
If internal staffing resources are not available then procurement of specialist contractors will be required, this has currently not been priced. The return on investment may be longer if the research by Facilities Management reveals inconsistencies in the assumptions made in energy consumption.

Key Milestones and Target Timescales (from approval)

Milestone	Target Period from Approval Date (Months)
1) Design, Specification, Scheduling, Tender	6 months
2) Equipment Procurement	4 months
3) Contract Works On Sites	6 months
4) Commissioning and Completion	2 months Over a 2 year period

Proposal by	Derek MacNab	**Directorate**	Neighbourhoods

Report to the Finance and Performance Management Cabinet Committee

Report Reference: FPM-012-2015/16
Date of meeting: 17 September 2015

Epping Forest District Council

Portfolio: **Finance**

Subject: **Risk Management – Corporate Risk Register**

Officer contact for further information: **Edward Higgins – (01992 – 564606)**

Democratic Services Officer: **Rebecca Perrin - (01992 – 564532)**

Recommendations/Decisions Required:

1. **To agree the updating of the Key dates within the Action Plan for Risk 1;**
2. **To agree the updating of the Effectiveness of controls/actions for Risk 2;**
3. **To agree the amended Key date for Risk 4;**
4. **To agree the amended Required further management action and updated Key Date within Risk 5;**
5. **To agree the amended Required further management action within Risk 6;**
6. **To agree the amended Required further management action within Risk 7;**
7. **To agree the amended Existing Control within Risk 8;**
8. **To agree the updating of Existing Control and Required Further Management Action for Risk 9;**
9. **To agree the additional Vulnerability and Trigger within Risk 10;**
10. **To consider whether there are any new risks that are not on the current Corporate Risk Register; and**
11. **To agree that the amended Corporate Risk Register be recommended to Cabinet for approval.**

Executive Summary:
The Corporate Risk Register has been considered by both the Risk Management Group on 27 August and Management Board on 2 September. These reviews identified amendments to the Corporate Risk Register.

Reasons for Proposed Decisions:
It is essential that the Corporate Risk Register is regularly reviewed and kept up to date.

Other Options for Action:
Members may suggest new risks for inclusion or changes to the scoring of existing risks.

Report:

1. The Corporate Risk Register was reviewed by the Risk Management Group on 27 August and Management Board on 2 September. A number of amendments have been identified and incorporated into the register (Appendix 1).

2. Risk 1 Local Plan – Key dates within the Action Plan have been updated to advise the current status, this includes the confirmation that the new staffing structure has been implemented.

3. Risk 2 Strategic Sites – The Effectiveness of controls/actions have been amended to advise the updated position for the key sites.

4. Risk 4 Finance Income – Key date has been amended to Autumn, when the outcome of the Comprehensive Spending Review will be available.

5. Risk 5 Economic Development – Recruitment of experienced staff has been removed from the required further management action as staff are now in post. The key date has been revised to January 2016 for the completion of the Economic Development Strategy.

6. Risk 6 Data / Information – The required further management action has been amended to advise the required implementation of a new system for handling Freedom of Information requests. The suitability to extend the use of the system for Data Protection will be considered after a further six months.

7. Risk 7 Business Continuity – The required further management action has been amended to include the need to arrange periodic testing and exercises.

8. Risk 8 Partnerships – The Existing Control has been updated to advise the structured reporting is to Select Committee rather than Scrutiny Panels.

9. Risk 9 Safeguarding – An additional Existing Control and required further management action have been added to advise the establishment of a Nursery Worker Accommodation Task Group and the need for an action plan for the group. Also within the existing Controls it is noted that the Safeguarding Strategy and Action Plan was adopted by Cabinet. An additional required further management action has been added to reflect the Cabinet decision to support a growth bid to make the Safeguarding posts permanent.

10. Risk 10 Housing Capital Finance – An additional Vulnerability and Trigger have been added should there be any legislative change which reduces income to the Housing Revenue Account (HRA).

11. Members are now asked to consider the attached updated Corporate Risk Register and whether the risks listed are scored appropriately and whether there are any additional risks that should be included.

Resource Implications:
No additional resource requirements.

Legal and Governance Implications:
The Corporate Risk Register is an important part of the Council's overall governance arrangements and that is why this Committee considers it on a regular basis.

Safer, Cleaner, Greener Implications:
None.

Consultation Undertaken:
The Risk Management Group and Management Board have been involved in the process.

Background Papers:
None.

Impact Assessments:

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

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
03/09/15 Director of Resources	The purpose of the report is to monitor corporate risks. It does not propose any change to the use of resources and so has no equalities implications.

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Appendix 1

Epping Forest District Council

Corporate Risk Register

Date: 17 September 2015

Contents

1. Introduction

A strategic risk management 'refresh' exercise was conducted on 15th May 2013 with assistance from Zurich Risk Engineering. This exercise was an opportunity for the Management Board to refresh (or update) through identification, analysis and prioritisation those risks that may affect the ability of the Council to achieve its strategic objectives and Corporate Plan. In doing so, the organisation is recognising the need to sustain risk management at the highest level.

The refresh exercise involved a workshop with Management Board to identify new business risk areas and to update and re-profile important risks from the existing corporate risk register.

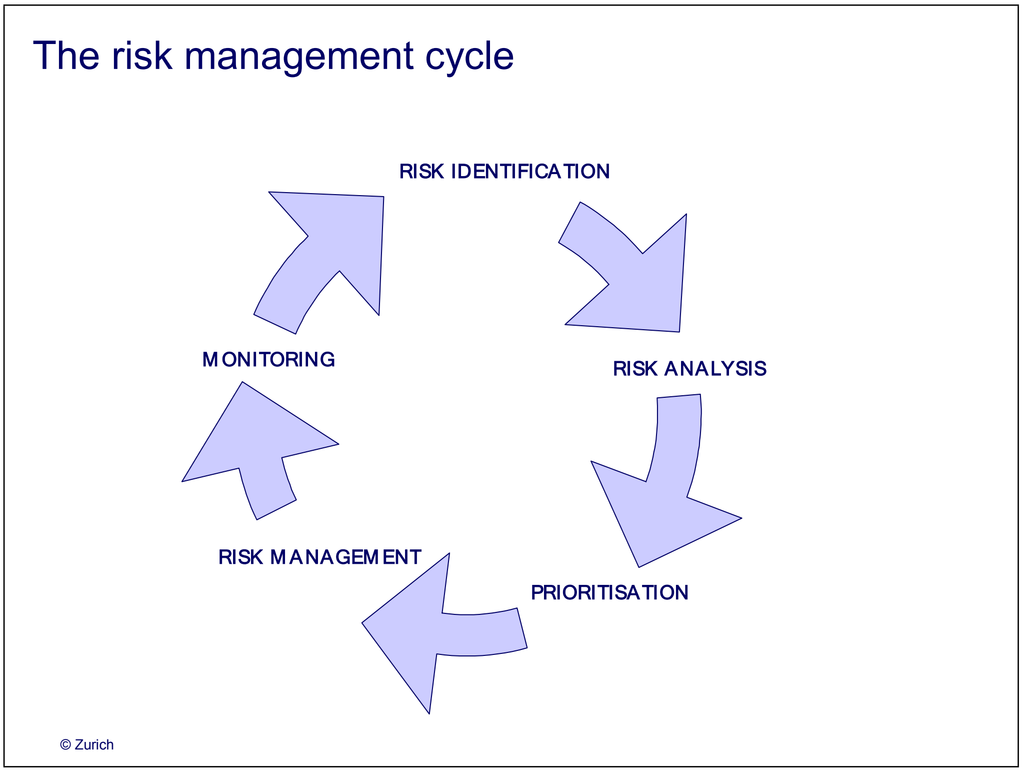
In total 8 strategic risks were profiled at the workshop and during the workshop, each risk was discussed to ensure common agreement and understanding of its description and then prioritised on a matrix. The risk matrix measured each risk for its likelihood and its impact in terms of its potential for affecting the ability of the organisation to achieve its objectives.

For the risks that were assessed with higher likelihood and impact, the group validated the risk scenarios and determined actions to manage them, including assessing the adequacy of existing actions and identifying the need for further actions in order to move the risk down the matrix.

Management Board agreed a timescale for re-visiting these risks in order to assess if they are still relevant and to identify new scenarios. Risks in the red zone will be monitored on a monthly basis and those in the amber zone on a quarterly basis.

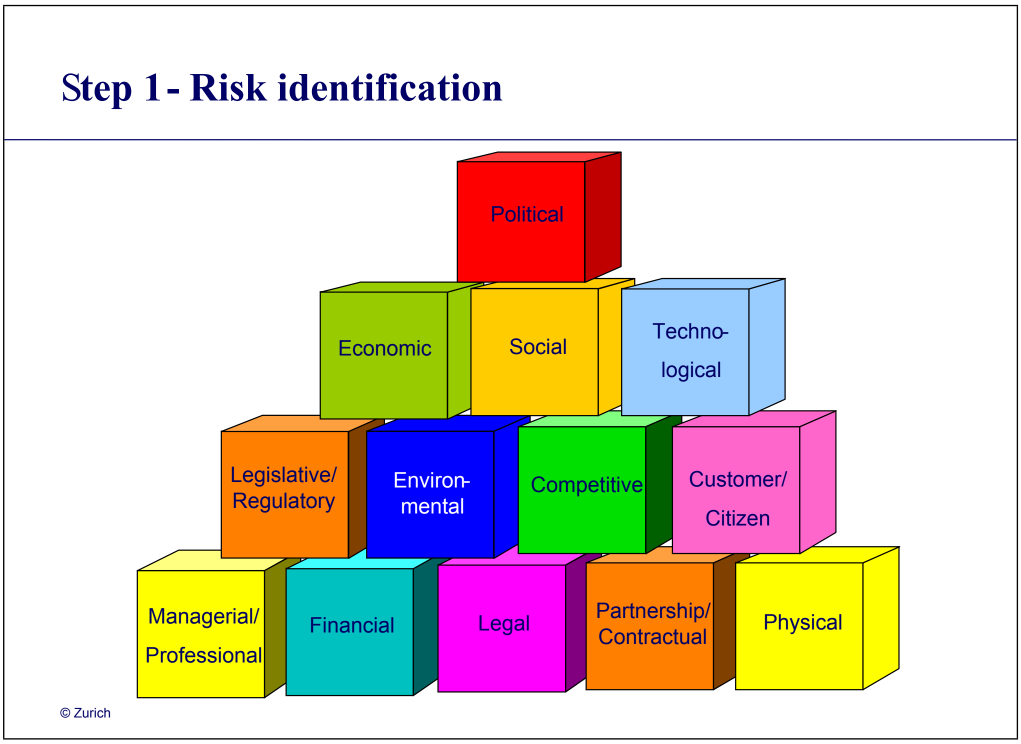
The following report outlines the process utilised by Zurich Risk Engineering and the results achieved.

2. The Process



Risk identification

The first of five stages of the risk management cycle requires risk identification. This formed the initial part of the workshop. In doing so the following 13 categories of risk were considered.



Risk analysis
During the workshop, the identified risks were discussed and framed into a risk scenario format, containing risk cause and consequence elements, with a 'trigger' also identified, This format ensured that the full nature of the risk was considered and also helped with the prioritisation of the risks.

Risk prioritisation
The discussion resulted in 8 risk scenarios being agreed (Appendix 2) and these were then assessed for impact and likelihood and plotted onto a matrix (Appendix 1). The likelihood of the risks was measured as being 'very high', 'high', 'medium', or 'low/very low'. The impact, compared against the key objectives and Corporate Plan was measured as being 'major', 'moderate', 'minor' or 'insignificant'.

Once all risks had been plotted the matrix was overlaid with red, amber and green filers, with those risks in the red area requiring further particular scrutiny in the short-term, followed by those in the amber area.

Risk management and monitoring

The next stage is to monitor the revised management action plans. These plans frame the risk management actions that are required. They map out the target for each risk i.e. to reduce the likelihood, impact or both. They also include targets and critical success factors to allow the risk management action to be monitored.

A risk owner has been identified for each risk. It is vital that each risk should be owned by a member of Management Board to ensure that there is high level support, understanding and monitoring of the work that is required as part of the plans. Risks should also be reviewed as part of the business planning process, in order to assess if they are still relevant and to identify new issues.

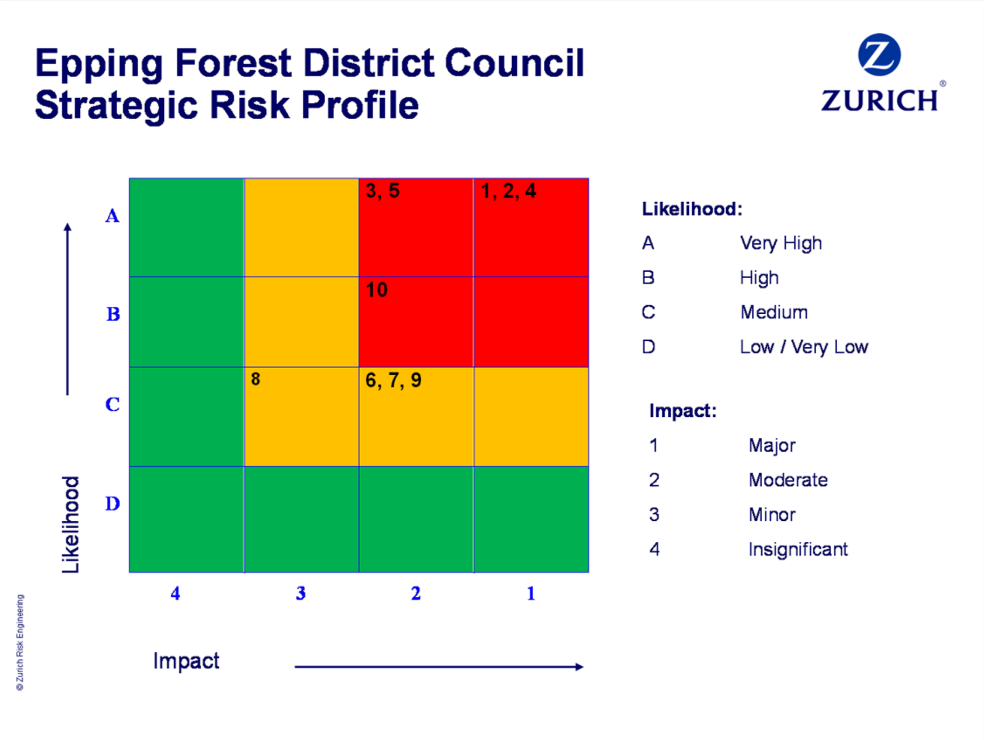
The monitoring of these action plans takes place at Corporate Governance Group, Management Board and the Risk Management Group. The action plans are also reported to Members quarterly.

As part of the regular review and reporting an additional risk on Safeguarding was added to the register in January 2014. The most recent addition was a risk covering various aspects of Housing Capital Finance and this was added in June 2015.

Appendix 1 – Risk Profile

Risk profile

During the workshop, 8 risks were identified and framed into scenarios. The results are shown on the following risk profile.



Appendix 2 details all of the above risks.

It is important that an action plan element is written for each of the risks, with particular focus on those with the highest priority, as it is this which will allow them to be monitored and successfully managed down.

An opportunity was also taken as part of this refresh to 'spring clean' the risk numbers, and they were numbered in priority order as follows:

Risk number	Short name
1	Local plan
2	Strategic sites
3	Welfare reform
4	Finance – income
5	Economic development
6	Data/ information
7	Business continuity
8	Partnerships
9	Safeguarding
10	Housing Capital

Appendix 2 – Corporate Risk Register and Action Plans

Risk No 1   Local Plan   A1

Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
On-going changes to Planning system increase importance of having up to date Local Plan.	Failure to make timely decisions and adhere to Local Development Scheme Project Plan.	Reduced ability to manage development in line with local priorities. Failure to provide strategic direction for future development, and housing etc for future needs.	Derek Macnab
Changes in government planning policy require new Local Plan to take approaches significantly different from predecessors eg Duty to Co-operate, release Green Belt.	Failure of Council to approve a draft plan in line with National Planning Policy Framework.	Plan not “sound”, leading to further delay, wasted resources, and vulnerability to planning appeal decisions.	
Difficulties in implementing “Duty to Co-operate” may make it difficult or impossible to achieve “sound” Local Plan in timely fashion	Inability to agree, particularly on amount and distribution of objectively assessed development needs.	As above	
Failure to make timely progress increases likelihood of “planning by appeal”	Failure to adhere to Local Development Scheme leads to developers making significant planning applications in advance of new Plan.	Significant diversion of professional resources to appeals. Risk of costs awards against Council. Potential lost opportunity for infrastructure and other provision due to outdated/National Planning Policy Framework non-compliant policies Development which is inappropriate in location/scale/type	
Lack of adopted Plan reduces ability to obtain developer contributions.	Developers exploit inadequacies in S106/CIL arrangements.	Additional demands put on public funding of infrastructure.	
Loss/sickness of key staff and recruitment difficulties or inappropriate resource provision hold back progress.	Loss/long term absence of key staff.	Delay in progress Potential need for rework due to loss of “corporate memory”.	

Risk No 1 Local Plan – Action Plan

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Project management approach in place including regular updates, resource planning.	Project plan needs to incorporate more time for political engagement at key decision points.	Agree mechanisms and timing with lead members, incorporate in revised project plan	Derek Macnab	Future adherence to project plan.	MB review 6 weekly	None – process ongoing.
Local Development Scheme revised June 2015.	Local Development Scheme adopted by Cabinet 11 June 2015.	Review progress against key milestones.	Derek Macnab	Local Development Scheme remains robust	As necessary	Review likely within 12 months
Workshops for EFDC and Town/Parish councillors on key issues to enhance awareness and understanding of new government requirements.	Workshops popular and helpful.	Supplement workshops with other forms of briefing to EFDC members as agreed with leading members.	Derek Macnab	Timely decision making in line with project plan.	As necessary	
Engagement with other key stakeholders eg ad hoc meetings with Town/Parish councils, Resident Associations and website.	Utilising existing mechanisms including Local Council Liaison Committee and Forester. Intensive engagement takes place in lead up to formal consultations. Ongoing discussions being had around Neighbourhood Plans.	Consider hiring a PR firm to assist in delivering the next statutory consultation.	Derek Macnab	Stakeholders feel well informed about process and decisions. Informed responses to public consultation.	As necessary	

Risk No 1 Local Plan – Action Plan

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Systematic approach to Duty to Co-operate, engaging public bodies and developing Memorandum of Understanding with key councils in the Strategic Market Housing Area.	Difficulties and delay in engaging councils in serious discussion re Memorandum of Understanding, however progress now being made. Meetings held with most other key bodies with positive outcomes, issues identified. Constant review of Planning Inspectorate local plan decisions re Duty to Co-operate.	Important that key decisions do not precede Duty to Co-operate ie "fait accompli"- Group is exploring additional items to be included on discussion agenda. Engage further key bodies eg Lee Valley Regional Park. Discuss informally with Planning Inspectorate as necessary. Ongoing review of strategy by senior planners and Management Board.	Derek Macnab	Submitted plan passes legal test of Duty to Co-operate.	MB review six weekly	Officer Meetings – monthly now underway. Governance arrangements agreed. "Duty to Co-operate" Member meetings now ongoing.
Consultants in place to support project management, resource planning, Sustainability Assessment, transport modelling, masterplanning.	Staff cannot be prevented from leaving. Exit interviews should reveal any specific patterns. Market is picking up, making recruitment more difficult. EFDC is not offering the most competitive salaries compared to other Essex and London authorities.		Derek Macnab	No delays to timetable due to staffing gaps or lack of critical skills	As above	None - new staffing structure now implemented.

Risk No 2 Strategic Sites A1

Vulnerability	Trigger	Consequence	Risk Owner
The Council has a number of Strategic sites which it needs to make the right decisions about and then deliver on those decisions. One key individual is driving forward the projects.	Not maximising the opportunity of the strategic sites either through decisions or delivery. Loss of key individual	• Financial viability of Council harmed • Lack of economic development and job creation • External criticism • Project delayed or mismanaged	Derek Macnab

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Work on strategic sites is co-ordinated through a dedicated Cabinet Committee.	Work is progressing on developing a number of sites: 1. Winston Churchill site is now being taken forward by larger developer; 2. Fuller information requested by Secretary of State for St Johns Road. No decision likely until end September; 3. The Council now own the whole Langston Road site and development is progressing well, including substantial pre-lets; 4. The exercise to find an aviation business partner for North Weald has generated some interest; 5. Pre-start meeting for Oakwood Hill held with main contractor and work now commenced.	Reports to Cabinet Committee and Cabinet to obtain decisions on development options. Identification of alternative Housing depot and re-location.	Derek Macnab	Development of strategic sites completed in accordance with Cabinet decisions.	Monthly	None

Risk No 3 Welfare Reform A2

Vulnerability	Trigger	Consequence	Risk Owner
The government has pledged to reduce the overall welfare bill by £12bn. This will require a major reform of the welfare system which is likely to have serious impacts on the Council and the community. This includes Universal Credit, changes to Council Tax and other benefits and direct payments to tenants.	Welfare reform changes have a detrimental effect on the Council and community	• Tenants no longer able to afford current/new tenancies. • Increase in evictions and homelessness • Increased costs of temporary accommodation • Unable to secure similar level of income due to payment defaults • Increase in rent arrears • Public dissatisfaction • Criticism of the Council for not mitigating the effects for residents.	Alan Hall

Existing Controls /actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Joint Benefits and Housing working group established. Mitigation action plan developed.	Two thirds of the actions have been implemented and the remaining actions are in abeyance pending Government announcements on Universal Credit.	Working Group to continue and amend mitigation action plan as necessary.	Alan Hall	A smooth implementation of welfare reforms. Minimise number and cost of redundancies.	Monthly	Start date for universal credit still unclear.
To address issues arising from the single fraud investigation service, Cabinet has approved restructures for both Benefits and Internal Audit.	The effectiveness of the new structures will only be apparent sometime after they have been implemented.	Implement new structure.	Bob Palmer Colleen O'Boyle	Effectiveness of Benefit and Internal Audit maintained.	Six monthly	30 September 2015

Risk No 4 Finance Income A1			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Council has a reliance on major income generating contracts and fee earning services. Some of which have been adversely affected by the recession and some of which may be affected by legislative change. A large number of rating appeals have been received and the outcome of these is uncertain. Welfare reform may require substantial change to the calculation and administration of benefits with a likely reduction in funding received. The medium term financial strategy requires substantial net CSB reductions over three years.	Unable to secure required level of income due to reduced demand for services, changes in legislation or adverse change in funding mechanisms.	• Council unable to meet budget requirements • Staffing and service level reductions • Increase Council Tax • Increase in charges • Greater use of reserves if required net savings not achieved • Higher level of saving in subsequent years.	Bob Palmer

Existing Controls /actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Monitoring of key income streams and NDR tax base. Savings opportunities pursued through service reviews and corporate restructure.	Effective to date as budgets have been achieved that meet the financial targets set by Members.	Update Medium Term Financial Strategy as announcements are made on changes to central funding and welfare. Continue to pursue opportunities to reduce net spending.	Bob Palmer	Savings targets achieved with net expenditure reductions over the medium term as part of a structured plan.	Monthly	Autumn – outcome of Comprehensive Spending Review.

Risk No 5 Economic Development A2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
Economic development and employment is very important, particularly in the current economic climate. The Council needs to be able to provide opportunities for economic development and employment (especially youth employment) in the District.	Council performs relatively poorly compared to other authorities.	• Unable to secure sufficient opportunities • Local area and people lose out • Insufficient inward investment • Impact on economic vitality of area • Loss of revenue	Derek Macnab

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Work has commenced on an updated Economic Development Strategy. Cabinet approved four new posts.	Too early to determine effectiveness of new management and new posts.	Completion of Strategy and allocation of appropriate resources.	Derek Macnab	Growth in NDR tax base and employment opportunities. Council to be viewed as punching above its weight.	Monthly	January 2016 for Economic Development Strategy.

Risk No 6 Data / Information C2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Authority handles a large amount of personal and business data. Either through hacking or carelessness, security of the data could be compromised.	Data held by the Council ends up in inappropriate hands.	• Breach of corporate governance • Increased costs and legal implications • Reputation damaged	Colleen O'Boyle

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Rollout of a Data Protection e-learning module commenced Jan 2014, for completion by officers every two years. Data Protection formed part of Member induction from May 2014, with requirement to confirm acceptance of the Council's DP policy. Consolidation of Data Protection and Freedom of Information work in one area. Security Officer is continually monitoring situation and potential risks. Most systems have in built controls to prevent unauthorised access. Controls in systems have been strengthened in response to specific occurrences.	Generally effective to date, with no lapses so far in 2015/16.	Consider separation of Environmental Information Requests and ensure these are handled in accordance with the appropriate regulations. Implement new system for handling F.O.I. requests. Review after six months for extension to Data Protection. Data sharing and fair processing notices to be reviewed and standardised. Maintain GCSx compliance and system controls. A working group is reviewing data held by Directorates to eliminate duplication and any inadvertent Data Protection issues.	Colleen O'Boyle	Continued security of personal data held by the Council in accordance with the Data Protections Act 1998. No criticism from the ICO over how requests are handled. No data loss or system downtime due to unauthorised access of EFDC systems or data.	Quarterly	None

Risk No 7 Business Continuity C2

Vulnerability	Trigger	Consequence	Risk Owner
The Council is required to develop and implement robust Business Continuity Plans in line with the requirements of the Civil Contingencies Act. Following the consolidation into four directorates plans need to be updated and changes in responsibilities confirmed.	Unable to respond effectively to a business continuity incident (e.g IT virus/flu pandemic)	• Services disrupted / Loss of service • Possible loss of income • Staff absence • Hardship for some of the community • Council criticised for not responding effectively	Derek Macnab

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Most services already have business continuity plans in place and a separate flu pandemic plan has been developed.	The effectiveness of controls is assessed periodically through test and exercises	Both corporate and service business continuity plans are being updated. Arrange periodic tests and exercises.	Derek Macnab	Having plans in place which are proved fit for purpose either by events or external scrutiny.	Quarterly	None

Risk No 8 Partnerships C3			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Council is involved in a plethora of multi agency partnerships e.g. LSP - LEP, and these have a variety of governance arrangements. Localism act may cause transfer of Council services to providers with governance issues.	Key partnership fails or services provided via arrangements lacking adequate governance.	• Relationships with other bodies deteriorate • Claw back of grants • Unforeseen accountabilities and liabilities for the Council • Censure by audit/inspection • Adverse impact on performance	Glen Chipp

Existing Controls/actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
Active participation in key partnerships by appropriate officers/Members. Structured reporting back to designated Select Committee. Members can request representatives on outside bodies to report to Full Council.	No significant issues to date. However, some concern exists about the working of the North Essex Parking Partnership.	Continue existing monitoring procedures for current partnerships and construct appropriate arrangements for any new partnerships.	Glen Chipp	No significant impacts on service delivery or Council reputation from any partnership failures.	Quarterly	None

Risk No 9 Safeguarding C2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
The Council needs to demonstrate its ability to meet its duties under Sections 11 and 47 of the Children Act 2004. In addition, with the introduction of the Care Act 2014 new legislation requires the Council to comply with a range of new duties for adults with needs for care and support. This includes a new responsibility for safeguarding adults from self-neglect.	The Council fails to meet its duties in regard to safeguarding children, young people and adults with needs for care and support. .	• A child, young person or vulnerable adult suffers significant harm • A child, young person or vulnerable adult suffers from exploitation • Avoidable death of a child, young person or vulnerable adult living in the District • Reputational risk for Council • Censure and special measures applied	Alan Hall

Risk No 9 Safeguarding - Action Plan

Existing Controls/ actions to address risk	Effectiveness of controls/actions	Required further management action	Responsibility for action	Critical success factors and measures	Review frequency	Key date
The Council has a revised and comprehensive Safeguarding Policy (2015), which is updated in line with any changes within legislation. The policy details what is required of all staff and Elected Members and is supported by a set of procedures which clearly set out the process for recording safeguarding concerns, incidents and allegations.	The Council has reduced the risk of safeguarding issues going unnoticed by staff and Elected Members by providing a range of training and production of the new Policy and procedures 2015.	Leadership Team and Managers to continue to promote vigilance amongst staff The Council needs to ensure timely response to changes in legislation or local procedures.	Alan Hall	The Council meets all of its duties under Section 11 and 47. The Council meets the new duties of the Care Act 2014. The Council fully meets all aspects of the ESCB/ESAB Safeguarding self - assessment.	Monthly	October 2015 Self-Assessment Audit
A corporate Safeguarding Group ensures sharing of best practice and information across Directorates and enables the identification of any weaknesses in the Council's work.	This group has become an effective forum for sharing of best practice and commitment from all Directorates is shown.	Directorates need to continue to commit time for representatives to attend the Corporate Working Group.				
Council policies have been developed for all new and emerging safeguarding issues such as Child Sexual Exploitation.	Several of these policies have been used across Essex as examples of best practice.	An ongoing rolling programme of training needs to be in place, to update and refresh staff and Elected Member awareness.				
Following good feedback from the Safeguarding Audits 2014/15, a Safeguarding Strategy and Action Plan has been adopted by Cabinet.	Safeguarding Strategy and Action Plan, set out the areas for further improvement following feedback from the annual audit.					
The appointment of a Safeguarding Officer and part time Admin. post for two years, has enabled the Council to meet all of the required standards.	These posts have enabled a Safeguarding 'Hub' to be set up in Community Safety, which all EFDC safeguarding issues are filtered through.	Council to support growth bid to make posts permanent.				
Nursery Worker Accommodation Task Group established.		Develop and implement action plan.				

Risk No 10 Housing Capital Finance B2			
Vulnerability	**Trigger**	**Consequence**	**Risk Owner**
If the Council is unable to spend right to buy receipts in set timescale on qualifying capital schemes we will have to pay the money to the Government along with interest at a penalty rate. Changes to legislation which reduce income to the HRA. The Government may introduce right to buy for tenants of housing associations financed through the forced sales of Council properties as they become void.	Schemes are delayed by either the planning process or unanticipated site problems. Imposition of rent reduction proposal. Imposition of right to buy scheme which requires the disposal of a large proportion of the Council's void properties.	• Loss of capital resources • Revenues cost of penalty interest • Loss of HCA affordable housing grant • Loss of rental income • Delays in provision of new social housing • Increase in housing waiting list • Current 30 year business plan may become unsustainable.	Alan Hall

Existing Controls/actions to address risk	**Effectiveness of controls/actions**	**Required further management action**	**Responsibility for action**	**Critical success factors and measures**	**Review frequency**	**Key date**
Position being monitored by the House Building Cabinet Committee and a number of contingency options are available including purchasing on the open market.	Effective to date as no loss of funds yet.	Continue close monitoring of financial position. Keeping Members fully informed of the potential consequences of their actions.	Alan Hall	No loss of right to buy receipts.	Monthly	Ongoing
The Council belongs to the Association of Retained Council Housing which lobbies on such issues.	Too early to comment yet as the policy is still being developed.	Monitor policy development/announcements and participate in lobbying if appropriate.	Alan Hall	No loss of Council properties to support right to buy for HA tenants.	Monthly	

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Report to the Finance & Performance Management Cabinet Committee

Report reference: FPM-013-2015/16
Date of meeting: 17 September 2015

Epping Forest District Council

Portfolio: Finance

Subject: Quarterly Financial Monitoring

Officer contact for further information: Peter Maddock (01992 - 56 4602).

Democratic Services Officer: Rebecca Perrin (01992 – 56 4532)

Recommendations/Decisions Required:

That the Committee note the revenue and capital financial monitoring report for the first quarter of 2015/16;

Executive Summary

The report provides a comparison between the original estimate for the period ended 30 June 2015 and the actual expenditure or income as applicable.

Reasons for proposed decision

To note the first quarter financial monitoring report for 2015/16.

Other options for action

No other options available.

Report:

1. The Committee has within its terms of reference to consider financial monitoring reports on key areas of income and expenditure. This is the first quarterly report for 2015/16 and covers the period from 1 April 2015 to 30 June 2015. The reports are presented based on which directorate is responsible for delivering the services to which the budgets relate and the budgets themselves are the Original Estimate updated for the District Development Fund items that were brought forward from 2014/15.

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

Revenue Budgets (Annex 1 – 6)

3. Comments are provided on the monitoring schedules but a few points are highlighted here as they are of particular significance. The salaries schedule (Annex 1) shows an underspend of £191,000 or 3.6%. This time last year the variance was 2.0%. A vacancy allowance of 1.5% has been allowed for but clearly vacancies are running at a rather higher level at the moment with all directorates (except Chief Executive) showing a degree of underspend.

4. Neighbourhoods and Resources have the largest underspend of £64,000 and £62,000 respectively. The former relates mainly to Grounds Maintenance and Estates and the latter to Revenues, Benefits and to a lesser degree Accountancy.

5. Investment interest levels are slightly below expectations at Month 3. This is likely to continue as the payment to Polofind for land at Langston Road was made in early July and the second half of the financial year should see the start of the construction of the retail park which will deplete cash balances further. There has again been some talk of the need to raise interest rates but whether that will come to fruition any time soon remains to be seen.

6. Development Control income at Month 3 is continuing the recent upward trend. Fees and charges were £71,000 higher than the budget to date and pre-application charges are £15,000 higher, by the end of July Development Control income was £118,000 above expectations.

7. Building Control income was £18,000 higher than the budgeted figure at the end of the first quarter. Also the ring-fenced account is showing an in-year surplus of £34,000 as at Month 3. It was expected that a surplus of £13,000 for the full year would be achieved it already looks as if the position will be substantially better. The surplus on the account brought forward into this financial year was £81,000 due to a very good final quarter in 2014/15.

8. Hackney Carriage income is £4,000 above expectations and other licensing in line with the budget. There is not expected to be any significant variation on the budget.

9. Income from MOT's carried out by Fleet Operations is £3,000 above expectations. The budget has been set to breakeven in 2015/16, however the profiled budget shows that in the first few months the account will be in deficit which is indeed the case. The expectation is that during the second half year a surplus will be achieved to bring the account back to breakeven.

10. Car Parking income was £51,000 below the estimate as at month 3. Pay and display income was being received some 2 weeks in arrears at that time in line with the profiled budget though telephone payments were, and continue to be two months behind and account for about half of that shortfall. By the end of August pay and display income was only a week in arrears. Based on current evidence there may be a shortfall in this area and this needs to be kept under review. The budget will shortly be revisited and further analysis carried out to assess the level of any expected shortfall to be included in the budget.

11. Local Land Charge income is below expectations as there has been a reduction in searches undertaken, there was a shortfall which became apparent toward the end of 2014/15 and this trend has continued.

12. From the start of the new waste management contract recycling credits are paid only on dry recycling. Due to the time lag between achieving the credits and billing for them there is little income expected in the first quarter.

13. In order to cut down on the amount of administration and speed up payment times it was agreed to pay the waste contractor the agreed contract sum monthly by Direct Debit as this is a fixed sum. The payment is made 30 days after the end of the month to which it relates. However there were some initial difficulties setting this up and no payments were made in the first quarter. Payments are now running smoothly.

14. The Housing Repairs Fund shows an underspend of £320,000. The full year budget is likely to be fully spent. There are no other significant variances on the HRA at the end of the first quarter.

15. In most cases income budgets are generally holding up well and Development and Building Control income is going exceptionally well. The budget is due for revision over the next few months and as part of that we need to assess how much of this income can be treated as ongoing and how much as DDF.

16. With regard to Land Charge and Car Parking income there is some concern that income levels may not be achieved so these areas in particular need to be kept under review.

Business Rates

17. This is the third year of operation for the Business Rates Retention Scheme whereby a proportion of rates collected are retained by the Council.

18. There are two aspects to the monitoring, firstly changes in the rating list and secondly the collection of cash. Changes in the rating list are important as with local retention the overall funds available to authorities will increase or decrease as the total value of the list increases or decreases. The NNDR1 form set out the non-domestic rate estimates for the year and started with a gross yield of £41,552,448 which was then reduced by the various reliefs for charities and small businesses and an allowance for appeals to get to a net rate yield of £35,883,949. At the end of June the net rate yield had increased by £242,358 and as the Council retains 40% of gains and losses this would mean an increase in funding of £96,943. However given the outstanding appeals and that a number of claims for small business rates and other reliefs are being received this is expected to reverse.

19. Cash collection is important as the Council is required to make payments to the Government and other authorities based on their share of the rating list. These payments are fixed and have to be made even if no money is collected. Therefore, effective collection is important as this can generate a cash flow advantage to the Council. If collection rates are low the Council is left to finance these payments from working capital and so has to reduce investment balances. At the end of June the total collected was £10,334,743 and payments out were £8,538,069, meaning the Council was holding £1,796,674 of cash and so the Council's overall cash position was benefitting from the effective collection of non-domestic rates.

20. In summary, at the end of June the increase shown whilst positive is only temporary, but cash collection is going well.

Capital Budgets (Annex 7 - 11)

21. Tables for capital expenditure monitoring purposes (annex 7 -11) are included for the three months to 30 June. There is a commentary on each item highlighting the scheme progress.

22. The full year budget for comparison purposes is the budget updated as part of the Capital outturn report.

Major Capital Schemes (Annex 12)

23. There are two projects included on the Major Capital Schemes schedule these relate to the Museum redevelopment and House Building package 1. Annex 12 gives more detail.

24. From the next quarter the Epping Forest Retail Park will also be included here. As at the end of June there had been no expenditure with the payment to purchase the land owned by Polofind not occurring until early July.

Conclusion

25. With regard to revenue, income is generally up on expectations and expenditure down. The increased income levels are very much welcome, in particular Development and Building Control income, though some concern exists over Land Charges and Car Parking income. Expenditure being below budget is not surprising as expenditure is usually heaviest toward the end of the financial year.

26. The Committee is asked to note the position on both revenue and capital budgets as at Month 3.

Consultations Undertaken

This report is due to be presented to the Resources Select Committee in October, and an update will be provided to that Committee to cover any additional comments or information from this Committee.

Resource Implications

There is little evidence at this stage to suggest that the net budget set will not be met however the budget is due to be revised during the Autumn and Winter and as usual any variances reflected therein.

Legal and Governance Implications

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

Safer, Cleaner, Greener Implications

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

Background Papers

Various budget variance working papers held in Accountancy.

Impact Assessments

<u>Risk Management</u>

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

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
03/09/15 Director of Resources	The purpose of the report is to monitor income and expenditure. It does not propose any change to the use of resources and so has no equalities implications.

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2015/16 DIRECTORATE FINANCIAL MONITORING

JUNE 2015 - SALARIES

DIRECTORATE	2015/16 EXPENDITURE TO 30/06/15 £000	2015/16 BUDGET PROVISION (ORIGINAL) £000	2015/16 VARIATION FROM BUDGET (ORIGINAL) %	2014/15 EXPENDITURE TO 30/06/14 £000	2014/15 BUDGET PROVISION (ORIGINAL) £000	2014/15 VARIATION FROM BUDGET (ORIGINAL) %
CHIEF EXECUTIVE	45	45	0.0	62	64	-3.1
RESOURCES *	1,384	1,446	-4.3	1,384	1,384	0.0
GOVERNANCE	806	837	-3.7	831	854	-2.7
NEIGHBOURHOODS *	1,098	1,162	-5.5	1,015	1,059	-4.2
COMMUNITIES *	1,799	1,833	-1.9	1,761	1,795	-1.9
TOTAL	**5,132**	**5,323**	**-3.6**	**5,053**	**5,156**	**-2.0**

* Agency costs are included in the salaries expenditure.

Please note a vacancy allowance of 1.50% has been deducted in all directorate budget provisions.

2015/16 DIRECTORATE FINANCIAL MONITORING - COMMUNITIES

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	First Quarter 14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Museum	75	27	25	25	-2	-7	No major variances.
Bed & Breakfast Accommodation	121	20	21	15	1	5	There were fewer placements necessary in the prior year
Grants to Voluntary Groups	87	22	10	24	-12	-55	The spend on grants is lower in the first three months compared to last year, profile set quarterly at the present time. Grant release tends to slow in first part of the year.
Voluntary Sector Support	170	76	76	0	0	0	In the prior year no grants were released until August as a new Portfolioholder was appointed.
Major income items:							
Bed & Breakfast Accommodation	107	37	37	27	0	0	There were fewer placements necessary in the prior year
	560	182	169	91			

	15/16 Full Year Budget	First Quarter 15/16 Budget	15/16 Actual	14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major income items							
Development Control	675	151	237	207	86	57	Development Control fees are profiled on the average of the previous three years. The income received in the first quarter has exceeded both the budget to date and the previous years actual due to an increase in the number of planning applications received.
Building Control Fee Earning	386	107	125	108	18	17	Building Control fees are higher than the profiled budget and greater than the previous year actual which is a reflection of the change in the economy generating more building work. In addition, the service has strived to increase its share of the market by engaging in partnership working with local architects, builders and professionals.
Local Land Charges	215	60	50	68	-10	-17	Local Land Charges income is significantly lower in the first quarter of this year than the previous year due to a reduction in the number of searches carried out by the Council.
	1,276	318	412	383			

2015/16 DIRECTORATE FINANCIAL MONITORING - NEIGHBOURHOODS

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	First Quarter 14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Refuse Collection	1,270	117	98	123	-19	-16	The expenditure variance is due to delays as regards Biffa invoicing.
Street Cleansing	1,208	101	115	153	14	14	The overspend relates to Street Arisings.
Recycling	2,411	203	199	355	-4	-2	No major variance.
Highways General Fund	64	12	0	7	-12	-100	The expenditure variances relates to other maintenance committed however invoices outstanding.
Off Street Parking	561	231	215	215	-16	-7	Various budget heads under spent.
North Weald Centre	209	73	55	55	-18	-25	Due to their nature, timing differences arise on Other and Runway Maintenance. It is a volatile budget.
Land Drainage & Contaminated Land	185	22	17	6	-5	-23	No major variances
	5,908	759	699	914			

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	First Quarter 14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items							
Forward Planning/Local Plan	817	63	31	0	-32	0	There was expected to be little expenditure in the first quarter but the actual is even lower due to further slippage in the programme. This budget is due to be reviewed in detail during the autumn to assess when money will be spent and how much will be required to complete the process.
Contract cost Monitoring							
Leisure Facilities:-							
Loughton Leisure Centre	-132	-31	-16	-15	15	-48	
Epping Sports Centre	320	53	26	26	-27	-51	The in year variances are due to contractor invoices being one month in arrears at the end of June 2015. This situation also occurred last financial year.
Waltham Abbey Pool	523	87	43	43	-44	-51	
Ongar Sports Centre	301	50	25	25	-25	-50	
	1,012	159	78	79			

2015/16
DIRECTORATE FINANCIAL MONITORING - NEIGHBOURHOODS (3)

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major income items:							
Refuse Collection	41	10	12	11	2	20	No major variances
Recycling	1,408	61	4	-163	-57	-93	The income variance is made up of £70,000 less than expected as April's recycling credits had not been received, and £13,000 more for Waste Service Enhancements than budgeted for.
Off Street Parking	1,226	269	218	163	-51	-19	Pay and display income is still being received sporadically and hence is around 2 weeks in arrears.
North Weald Centre	774	307	256	408	-51	-17	There is one rent review ongoing and related rent arrears to be collected. During 2014/15 the basis for charging for the market was changed from a fixed rental to an income share. This resulted in a refund of some of the income shown at this stage in 2014/15 and reduced the full year estimate. The lease of the current operator ends at 31 December 2015 and an exercise is underway to find a replacement.
Hackney Carriages	181	45	49	54	4	9	No major variances.
Licensing & Registrations	114	12	12	12	0	0	No major variances.
Fleet Operations MOTs	228	57	60	61	3	5	No major variances.
	3,972	761	611	546			

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major income items:							
Industrial Estates	1,162	546	515	518	-31	-6	Rents from the Industrial units are slightly below expectations due to a number of units being vacant at the Oakwood Hill Workshop Units and an increased number of voids affecting the Langston Road Seedbed Centre income.
Business Premises - Shops	2,156	1,078	1,072	1,054	-6	-1	This income relates to non housing assets which include shops, doctors surgeries, a petrol station and public houses. Income is slightly below the profiled budget. The actual also includes rents billed in advance for the second quarter.
Land & Property	142	27	28	17	1	4	Commission is received from the David Lloyd Centre based on their turnover. Income relating to 2015/16 will be accounted for at the end of the year, but received during the initial part of 2016/17. Income received from land and property in the first quarter of 2015/16 is on target with the profiled budget.
	3,461	1,651	1,615	1,589			

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	First Quarter 14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Building Maintenance	510	61	42	45	-19	-31	Building Maintenance works are difficult to forecast but generally works are undertaken in the latter part of the year which allows for preparation work to take place initially. The actual spend to date at quarter one for building maintenance is similar to the previous years actual.
Information & Communication Technology	940	555	552	615	-3	-1	The full year budget now comprises of the total cost of the councils ICT and communications expenditure including the Switchboard, Mobile Phones and the annual contract costs for all of the major systems in use. The prior year comparative has been adjusted to reflect this change. Expenditure is in line with the current budget spending profile as the majority of maintenance contracts for systems are paid at the beginning of the year with network charges continuing to be paid throughout the year.
Bank & Audit Charges	142	1	1	1	0	0	No significant expenditure occurs in either audit or bank charges until quarter 2.
	1,592	617	595	661			
Major income items:							
Investment Income	470	118	103	106	-15	-13	Investment interest is below that expected. Whilst Investment balances are around £10m higher than last year there are a number of significant capital projects that are expected to call on these funds so the original figure is unlikely to be met. Having said that the timings of capital spend are somewhat unpredictable and the actual income recceived will be heavily dependant on the progress of these schemes in general and the retail park in particular.
	470	118	103	106			

2015/16 DIRECTORATE FINANCIAL MONITORING - HOUSING REVENUE ACCOUNT

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	First Quarter 14/15 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	£'000	%	
Major expenditure items:							
Management & General	312	62	42	65	-20	-32	Expenditure is lower in 2015/16 due to less spending on Housing News, Legal and Professional Fees.
Housing Repairs	6,378	1,412	1,092	1,069	-320	-23	The underspend mainly relates to the responsive repairs of the HRA. The budget is profiled evenly across the year, as it is unknown when responsive repairs will arise. Gas servicing contract was expected to increase in cost but hasn't.
Special Services	1,158	262	178	103	-84	-32	The main areas showing an underspend are: Heating and Lighting and Equipment Maintenance.
	7,848	1,736	1,312	1,237			
Major income items:							
Non-Dwelling Rents	858	212	134	206	-78	-37	Income levels are down due to a higher than expected level of garage voids.
Gross Dwelling Rent	32,177	8,044	8,064	7,877	20	0	The variance between years is due to the annual rents increase which was 2.2% from April 2015.
	33,035	8,256	8,198	8,083			

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2015/16 DIRECTORATE CAPITAL MONITORING - COMMUNITIES

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Epping Forest District Museum	1,463	366	101	0	0	Please see comments on the major schemes schedule.
CCTV Systems	158	32	12	-20	-63	The 2015/16 CCTV capital budget covers the cost of work on seven schemes. The expenditure incurred to date relates to the purchase of new mobile cameras, which will be used throughout the District. Work on upgrading the system at North Weald Airfield is also complete although the invoice is yet to be received. The installation of CCTV cameras at the museum is progressing well and is expected to be completed within the next few months. Tenders are being sought to install cameras in the Council's car parks and the works are expected to be completed within the year. However, three schemes have been delayed including the scheme to provide CCTV coverage at the new Oakwood Hill depot; this is due to be undertaken at the end of the financial year. The two remaining schemes to locate cameras outside Epping Police Station and at Roundhills have been deferred due to officer capacity.
Housing Estate Parking	424	0	0	0	0	The off-street parking initiative comprises of a number schemes to provide parking bays on council housing estates and each scheme is jointly funded between the HRA and General Fund, depending on the mix of council owned and private properties. Works on the schemes were suspended while a tendering exercise was undertaken for the appointment of a design consultant. During the consultant tendering process, resident consultation on two off-street parking schemes are being undertaken and works are planned to commence on site in late autumn, depending on the results of the consultation and the appointment of a consultant. However, it is likely that the off-street parking budget will be underspent in 2015/16 and re-profiling of the budget into future years will be requested as part of the Capital Review.
Total	**2,045**	**398**	**113**			

2015/16 DIRECTORATE CAPITAL MONITORING - NEIGHBOURHOODS

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
New Shopping Development at Langston Road	16,859	0	0	0	0	A supplementary capital estimate of £30,636,000 was approved by Cabinet in June for the purchase of Polofind's interest in the Epping Forest Shopping Park and the development of the site at Langston Road by the Council as sole owner developers; £16,636,000 has been included in this financial year and £14,000,000 in 2016/17. The purchase of Polofind's interest was completed on the 3rd July 2015, and the Section 278 highways works contract tender is scheduled to be issued during the week commencing 10th August 2015 with procurement required to comply with European Union Regulations. Tender documents for the main shopping park contract are being prepared and expected to be issued in early September. However, placing the contract is heavily dependent on progress on the Section 278 works. The current project plan anticipates that the new shopping park will be completed and ready for tenant fit-out in October 2016, with full opening for the Christmas trading period in December 2016. This project will be included on the major schemes schedule from next quarter onwards.
St John's Road Epping Development	1,000	0	0	0	0	With contracts between Essex County Council, Epping Town Council and Frontier Estates expected to be completed in October 2015, this scheme is on course to spend the full budget within this financial year. The £1,000,000 budget shown represents the net cost of the transactions to the Council. The gross costs and forecast capital receipts will be identified as part of the Capital Review. With regard to work starting on developing the site, it is unlikely that Frontier will obtain planning approval before late summer, early autumn 2016.
Sir Winston Churchill Pub House Development	35	9	7	-2	0	The developers of the Winston Churchill project intend to start on site at the beginning of October 2015. This project is anticipated to have a 20 month build programme which is expected to be completed in May 2017. The Council has retained the freehold but is not responsible for any of the capital costs associated with this development, other than legal costs. However, the Council will receive the commercial rental income from the new shops. Letting of the ground floor units is expected to start as soon as the development works have been completed and, after allowing for rent free periods, the Council expects to see rental income at the end of 2017.
Oakwood Hill Depot	2,625	0	-26	-26	0	The building contract for the new depot at Oakwood Hill has been signed, sealed and completed and the contractor has started work on design and enabling tasks. It is anticipated that work on the site will commence on 24th August 2015 with a pre-commencement meeting with the contractor having been scheduled for 12th August 2015. The project is due to be completed by the end of March 2016 and is on target for both time and budget. The negative actual figure shown on this report relates to a sundry creditor yet to be cleared.
2nd Floor Bridgeman Hse W Abbey	309	0	0	0	0	Officers continue to be involved in dialogue with Bridgemans in respect of the proposed purchase of office space on the second floor of Bridgeman House, in order to relocate staff from the Hemnall Street offices. Originally Bridgemans had suggested that they would be vacating the premises in July or August 2015, but this date has now been extended to March 2016.
North Weald Airfield	15	15	11	-4	-27	This budget is fully funded from contributions made in previous years from the airfield's market operator. This budget consists of a £15,000 contribution towards the installation of CCTV cameras around the airfield, with works already completed but not fully invoiced.
Total c/f	20,843	24	-8			

2015/16 DIRECTORATE CAPITAL MONITORING - NEIGHBOURHOODS

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Total b/f	20,843	24	-8			
Upgrade of Industrial Units	271	0	0	0	0	In October 2013 Stace were instructed to undertake an appraisal of the industrial units at Oakwood Hill Industrial Estate. They reviewed a typical lease to assess current repairing obligations and future liabilities and they also studied historical information including construction drawings. Within the terms of the lease, it is the landlord's obligation to ensure that all exterior additions are undertaken to a rentable standard and it is the tenant's responsibility to maintain skylights. With roof repairs needed to achieve current building regulation standards, four options were considered and overlay sheeting was decided to be the best method. Four contractors were asked to tender and Faircloth Construction submitted the most competitive tender overall. The main complication with this scheme has been how the Council would recover the costs of the works from its current tenants. It is anticipated that terms will be agreed within 6 months with works expected to start early 2016. Fees occurred on this scheme thus far only relate to Stace's consultancy and legal fees in 2014/15 with no expenditure in the first quarter of this financial year.
Waste Management Equipment	101	5	4	-1	-29	This budget is being reviewed in the light of the new contract.
Parking Schemes	317	79	0	-79	-100	The Buckhurst Hill parking review is an Epping Forest District Council funded scheme to ease parking pressures arising from commuter parking in Buckhurst Hill. The scheme is delivered by Essex Highways, and consequently it is dependent on Essex Highways and their ability to prioritise the works, which has in the past seen schemes of this nature being delayed. Currently, the review is in the implementation stage with signs and lines being installed which should be completed shortly, weather permitting. Once works on this review are complete, focus will change to the Loughton Broadway parking review. In 2015/16 it is expected that £40,000 will be spent at Buckhurst Hill, and that much of the budget will be requested as a carry forward. The Capital Review will take this on board.
Superfast Broadband Programme	84	0	0	0	0	An allocation of £84,000 has been set aside to co-fund the investment in superfast broadband and achieve 95% coverage in the district through the Superfast Essex programme co-ordinated by Essex County Council. Epping Forest District Council is also involved with the Rural Challenge Pilot Project (Phase 2b), the contract for which was awarded to Gigaclear on 29 June 2015. Gigaclear will deploy fibre-to-the-premise technology to more than 4,500 properties in the district, enabling these homes and businesses access to broadband speeds of 50Mbps and up to 1000Mbps. This project will begin in November 2015 and could take up to 18 months to complete.
Other Schemes	251	48	0	-48	-100	This category includes the Council's grounds maintenance vehicle replacement programme, the pay and display car park scheme and flood alleviation equipment. The grounds maintenance team are looking to procure a replacement vehicle in the new year, expecting delivery around January/February time. Much progress has been made on the installation of the 41 pay and display machines in the Council's car parks, although there have been some software issues which are being addressed. No payments were processed in the first quarter of the year but the budget is expected to be fully spent by the year end. Demands on the flood alleviation budget are being considered and a programme will be drawn up shortly.
Total	**21,867**	**156**	**-4**			

2015/16 DIRECTORATE CAPITAL MONITORING - RESOURCES

	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Planned Maintenance Programme	916	198	159	-39	-20	This budget covers all projects undertaken within the Council's Planned Maintenance Programme, except for the solar panel project reported on separately in this schedule. In the first quarter: the window replacement in the main building is nearing completion; the air conditioning compressor in plant room 3, which cools the Members and the staff recreation areas has been completed; the installation of smart metering to reduce energy usage in the Civic complex is ongoing; and works to address the acoustic issues at the Limes Centre have been designed and will be undertaken in two phases. Most of the other schemes are planned to be undertaken in the autumn and winter and are expected to be completed by the end of the financial year. However, four schemes have been identified as slipping into 2016/17 including the replacement of electrical distribution equipment at the Civic Offices. The other three schemas were planned to be undertaken at the leisure centres at Epping and Waltham Abbey; these schemes have been put on hold pending finalisation of the Leisure Strategy. These budgets total £70,000 and the re-phasing will addressed as part of the Five Year Planned Maintenance Review which will be presented to Cabinet later in the year.
Solar Energy Panels	267	0	0	0	0	The project to install solar energy panels at the Civic Offices was rescheduled to commence after the completion of the window replacement works and the installation has been combined with essential roofing upgrade works. The window programme is almost complete and a contract has been let for the preliminary roofing works to the front of the main building and the Condor Building; work commences on the 17 August 2015 and is programmed for 12 weeks. The Photo voltaic panels will be installed on completion of these works.
ICT Projects & Other Equipment	401	100	99	-1	-1	During the first quarter of the ICT programme there has been key progression and completion of specific schemes. The Bankers' Automated Clearing Service replacement is due for completion by the end of August. The Uninterruptable Power Supply, Host Server and Virtual Private Network replacements have been completed, whilst the remote management and service desk systems have been installed and are currently undergoing configuration. The website development fund has been used to purchase a Freedom of Information system which will be implemented in September. At present it is expected that all the projects will be completed on time with no overspends anticipated.
Total	**1,584**	**298**	**258**			

2015/16 DIRECTORATE CAPITAL MONITORING - HOUSING REVENUE ACCOUNT

	15/16 Full Year Budget £'000	First Quarter 15/16 Budget £'000	First Quarter 15/16 Actual £'000	15/16 Variance Budget v Actual £'000	15/16 Variance Budget v Actual %	Comments
Housing Developments	5,772	1,443	236	-1,207	-84	Housing developments include phases 1 and 2 of the new house building programme and the conversion works at Marden Close and Faversham Hall. Please refer to Annex 12 (major schemes) for timings, costs and information on phase 1 of the new build scheme as well as an update on future phases. Regarding the conversion works at Marden Close and Faversham Hall, construction works commenced on site on 15 September 2014. The Contractor P A Finlay & Co encountered early delays on the contract. However, these have been resolved and the contact is on target to complete on time. However, a number of variations have been issued to account for unforeseen matters during this refurbishment contract. These include asbestos removal, roof repairs, lintels and window replacement and asphalt works to the external staircase to Faversham Hall. The estimated additional cost for these variations amounts to around £90,000.
Heating/Rewiring /Water Tanks	3,032	758	453	-305	-40	All areas of work are underspent in this category. One reason is that the contract for the replacement of gas communal boilers was only awarded in June so no costs were incurred in the first quarter. The replacement programme for communal water tanks in flats have been taking place over 5 years, which is due for completion in 2015/16; expenditure was low in the first quarter but is due to increase during the year. Likewise, the work planned for upgrading electric heating systems and associated rewiring has been scheduled to commence in the autumn.
Windows/Doors/Roofing	2,598	650	302	-348	-54	All budgets in this category are currently underspent with the largest underspend relating to the roofing programme. This is because the tiled roofing programme planned for this financial year has only recently commenced, with work in the first quarter focusing on completing some outstanding properties from last year's programme. On the other hand, the flat roofing programme is ahead of schedule as these works are profiled for completion in the summer months. Expenditure on window replacements is also showing a large underspend as the contract for replacement of windows in flats was only awarded at the end of June; commencing this programme along with window replacements to Council houses is expected to put expenditure back on target by the end of the year. The front entrance door replacement programme is currently on target and this budget is only slightly underspent.
Other Planned Maintenance	673	143	12	-131	-91	This category includes Norway House improvements, door entry system installations, Leonard Davis House conversion works and energy efficiency works and all the budgets are currently showing underspends. No works have been undertaken at Norway House to date but bathroom upgrades are due to commence in early autumn and other works later in the year. Limited work has been undertaken on door entry system installations so far this year as this programme is due to be tendered in the autumn and work on Leonard Davis House has not commenced yet. The budget for energy efficiency works is showing the largest underspend in this category. Generally energy efficiency works attract Government grant funding and the sudden withdrawal of the Green Deal funding has led to the suspension of the planned external wall insulation programme, which was the largest programme of work included in this budget. Following its suspension, alternative energy efficiency measures are being planned such as accelerating the air source heating programme, which attracts Government funding.
Kitchen Replacements	809	202	128	-74	-36	Both the kitchen and bathroom replacement budgets are currently underspent, it is anticipated that works on both programmes will be accelerated between September and December 2015. The completion of a four-year bathroom upgrade programme of the flats located in the blocks at Copperfield is due for completion by the end of 2015.
Bathroom Replacements	1,173	293	227	-66	-22	
Total c/f	14,057	3,489	1,359			

<u>2015/16 DIRECTORATE CAPITAL MONITORING - HOUSING REVENUE ACCOUNT</u>

	15/16 Full Year Budget £'000	First Quarter 15/16 Budget £'000	First Quarter 15/16 Actual £'000	15/16 Variance Budget v Actual £'000	15/16 Variance Budget v Actual %	Comments
Total b/f	14,057	3,489	1,359			
Void Refurbishments & Other Small Works	3,203	801	382	-418	-52	The nature of void works is that it is largely demand led and therefore it is difficult to predict expenditure outcomes each year. Although the budget is underspent at the end of the first quarter, expenditure is expected to increase towards the second half of the financial year based on trends experienced in previous years and it is thought likely that the budget will be fully spent by the end of 2015/16
Structural & Other Works	452	113	78	-35	-31	The structural repairs programme is on target to be completed by the end of the financial year. Currently, the programme is showing a small underspend as at the end of the first quarter but a number of structural projects are planned for the next six months which will increase expenditure.
Council Estate Parking, Garages & Other Environmental Works	1,578	190	49	-141	-88	This category includes garages, fencing, off street parking, estate environmental works, CCTV installations, external lighting schemes and a gas pipe-work replacement programme. Again, expenditure in the first quarter is low. The CCTV installation projects include: works for Springfields Waltham Abbey, which is currently awaiting quotes before a decision is made on the progress; Shelly Close Waltham Abbey, which has currently received planning permission with installation expected September onwards; and Limes Farm Green Block, which is expected to be undertaken in spring 2016. The largest programme within this category is for off-street parking which is jointly funded with the General Fund; a progress report can be found on the Communities sheet. The programme for the replacement of gas pipe-work at Ninefields is progressing well with the completion of a number of blocks late in June. Although expenditure is low at present it is expected to be back on target by the end of the year. The budget for external lighting schemes was increased this year with works well underway on a number of projects and overall expenditure is expected to be on budget by the year-end.
Disabled Adaptations	442	111	133	22	20	The budget for disabled adaptations is currently overspent due to an increase in demand combined with a number of large projects being undertaken at present. However, it is anticipated that expenditure can be controlled to avoid an overspend at the year-end by placing some disabled adaptation requests on hold until 2016/17.
Other Repairs and Maintenance	179	43	19	-24	-58	This category includes feasibilities, asbestos removal and the contingency budget; the largest budget being for asbestos removal. Expenditure on this budget is demand led and currently shows an underspend.
Capital Service Enhancements	350	28	6	-22	-94	The capital service enhancements budget includes the front entrance fire door replacement programme on leasehold properties, the Oakwood Hill Estate enhancement scheme, the refurbishment of communal kitchens in sheltered schemes and a small budget for the provision of electric scooter stores at sheltered schemes. The front entrance door replacement project is currently underspent, but demand is increasing and the underspend is expected to reduce in the next quarter. There has been no expenditure on the Oakwood Hill Estate enhancement scheme to date as the scope of the work has yet to be agreed with the project team, and expenditure is currently on hold. Phase 2 of the refurbishment of communal kitchens in sheltered schemes is progressing well with the completion of two kitchens in the summer and works are planned to refurbish another three kitchens over the next six months. Although underspent at present, expenditure is expected to catch up during the year and the budget is on target to be fully spent this financial year. After completing electric scooter stores at two sites last year, a review of demand for further scooter stores is being undertaken; a small budget is available this year for design works on two more sites and expenditure will depend on the results of the review.
Housing DLO Vehicles	58	0	0	0	0	A vehicle review is currently underway and it is expected to be concluded at the end of August to allow the replacement vehicles to be tendered through a framework agreement. Unlike previous years, when the budget has been used to replace transit vans, this year the budget is going to be used to procure tipper vans.
Total	**20,319**	**4,774**	**2,025**			

2015/16 DIRECTORATE CAPITAL MONITORING - REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE (REFCuS)) AND CAPITAL LOANS

REFCuS	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Disabled Facilities Grants	380	95	207	112	117	Expenditure on Disabled Facility Grants (DFGs) advanced to private sector residents in the District is currently exceeding the budget. The ability to control costs, however, is limited because the Council has a legal duty to provide DFGs to all residents who meet the eligibility criteria and residents are referred to Epping Forest District Council by occupational therapists provided by Essex County Council. The number of referrals has grown significantly since March 2013 due to an increase in the provision of the occupational therapist service by Essex County Council. The number of referrals rose significantly in 2014/15 and this increased level of demand has levelled off at an all-time high such that expenditure is forecast to be around £500,000 per year from 2015/16 onwards. Local authorities receive funding from the government in order to help them meet these statutory requirements. This funding now comes through the Better Care Fund, which is managed by Essex County Council, and the amount received for 2015/16 is £363,000. A report will be going to the Cabinet in September recommending that the budget be increased to cover the new level of demand and that this Council supplements the government funding received, from its own resources.
HRA Leaseholders	150	0	0	N/A	N/A	These costs relate to capital expenditure on sold Council flats and are currently shown in the HRA capital programme. They are will be identified once the works are complete and reported at the end of the financial year.
Total	**530**	**95**	**207**			

CAPITAL LOANS	15/16 Full Year Budget	First Quarter 15/16 Budget	First Quarter 15/16 Actual	15/16 Variance Budget v Actual		Comments
	£'000	£'000	£'000	£'000	%	
Home Ownership Schemes	357	89	0	-89	-100	The Open Market Shared Ownership Scheme provides interest-free loans to B3Living (formerly Broxbourne Housing Association) to enable first time buyers to purchase properties on the open market on a shared ownership basis. EFDC's loan amounts funds 58% of B3Living's 50% share. Phase 1 of the scheme was completed in 2012/13 and 8 loans were advanced. The scheme is now in its second phase and this includes an allocation to fund 5 loans of which 2 were completed in 2013/14. No advances were made in the first quarter of the year but one purchase has subsequently completed and the loan for this was advanced in July 2015. The remaining 2 purchases are in progress. Consideration is currently being given to undertaking a phase 3 of the Scheme.
Repayable Private Sector Housing Loans	120	30	10	-20	-67	This scheme offers discretionary loans to provide financial assistance for improving private sector housing stock and replaces the old non-repayable grants scheme referred to above. The budget is underspent to date as the uptake for these loans has been low and, although it is now increasing, expenditure for the year is likely to be no more than £81,000. Any budget adjustments deemed necessary will be requested as part of the Capital Review.
Total	**477**	**119**	**10**			

MAJOR CAPITAL SCHEMES
HOUSE BUILDING PHASE 1

Original Start on Site Date	Original Finish Date	Actual Start on Site Date	Proposed Finish Date	Original Pre-Tender Forecast £'000 (A)	Updates £'000 (B)	Approved Budget £'000 (C)	Actual Expenditure To Date £'000 (D)	Anticipated Outturn £'000 (E)	Variance Anticipated Outturn to Original Forecast % ((E-A)/Ax100)	Approved Budget Unspent To Date £'000 (C-D)
Apr-14	Jun-15	Oct-14	Apr-16	3,948	-478	3,470	620	3,470	-12%	2,850

Phase 1 : Work started on time in October 2014 on 4 sites in Waltham Abbey, which make up Phase 1 of the Council's Housebuilding Programme after the fifth site was rejected. However, the contractor Broadway Construction Ltd has not progressed with the works in a manner that will see the new homes completed within the original contract period. The latest estimate suggests that the Contractor is some 24 weeks behind programme, which moves the original contract completion date back to around 29 April

Broadway Construction Ltd (BCL) have indicated that they feel justified in making a claim for an extension of time with loss and expense as they feel the delays are not as a result of their actions. According to BCL, the delays are as a result of flood prevention measures required on one site; the requirement to achieve Code for Sustainable Homes Level 4; and issues pertaining to foundation and soil contamination remedial works across all 4 sites. One other cause that is cited is an issue with the design of the access road and maintaining fire access on one of the sites.

The Cabinet Committee met and considered whether the case warranted further negotiations with BCL. However, after considering the arguments for and against, it was agreed that when tendering for a contract that an amount should be factored into the costs for any unforeseen risks that could be incurred. The Cabinet Committee proposed that the Council should therefore enforce the contract with no additional costs being incurred by the Council.

Future Phases: The planning application for Phase 2 at Burton Road, Loughton has been submitted and, if approval is granted, the scheme is due to commence on site around February 2016. Planning applications are also due to be submitted for each of the 10 sites across Epping and North Weald that make up Phase 3 during August 2015. The target commencement date for Phase 3 is May 2016.

EPPING FOREST DISTRICT MUSEUM

Original Start on Site Date	Original Finish Date	Actual Start on Site Date	Proposed Finish Date	Original Pre-Tender Forecast £'000 (A)	Updates £'000 (B)	Approved Budget £'000 (C)	Actual Expenditure To Date £'000 (D)	Anticipated Outturn £'000 (E)	Variance Anticipated Outturn to Original Forecast % ((E-A)/Ax100)	Approved Budget Unspent To Date £'000 (C-D)
Feb-14	Jan-15	Apr-15	Nov-15	1,750	345	2,095	733	2,095	20%	1,362

In November 2012 the Museum Service submitted a bid to the Heritage Lottery Fund for an extension and redevelopment of the Epping Forest District Museum, this was supported by an agreed capital commitment from EFDC of £250,000 towards the purchase of the lease of the first floor of the adjoining 37 Sun Street. The bid was successful resulting in an award totalling £1,654,000 in March 2013; £1,500,000 for the capital redevelopment works and £154,000 for the associated engagement programme over a three year period. The project will transform the museum, providing step free access across the site and bringing a large percentage of the reserve collections, currently held at Langston Road depot into the heart of the museum.

Following the tender process and call in period, Coniston Ltd were selected as the preferred main contractors in December 2014 and Cabinet approved an additional allocation of £345,000 to allow for the agreed tendered sum. Works began on site at the end of April 2015 with a projected completion by end of October 2015. At the beginning of the contract, several elements of historic listed building fabric and archaeological features were uncovered which required recording before their removal and this led to an initial week's delay. Good progress was made following this until it was found that the builders undertaking the conversion of the second floor premises had cut through active ventilation ducts for the library. This has led to a further delay of one week. The conversion of 37 Sun Street in to the new gallery, stores and work areas is well underway, but recent difficulties with the planned installation of the lift, which enables the building to have step-free access (a main requirement of the HLF) may see a further delay of up to 5 weeks and may have cost implications to be assessed. The project architects and main contractors are trying to mitigate this through re-organising other areas of work, which it is hoped will reduce the overall delay in progress of the works. These issues are all associated with the anomalies found in such a historic building. Regular fortnightly site meetings continue to be held when progress is monitored. As the Council was unable to acquire the top floor of 37 Sun Street, some temporary alterations to access and additional fire protection has had to be put in place between the museum and the residential floor above. It is not known as yet if the Council will be able to acquire an area of office space on the second floor of the building. If this does prove to be possible, it will potentially enable the transfer of the Community Services team to be located all in the same building, therefore allowing quicker vacation of the Hemnall Street Office site.

Report to the Finance and Performance Management Cabinet Committee

Report Reference: FPM-014-2015/16
Date of meeting: 17 September 2015

Epping Forest District Council

Portfolio: **Finance**

Subject: **Annual Governance Report**

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

Democratic Services Officer: **Rebecca Perrin - (01992 564532)**

Recommendations/Decisions Required:

To note the External Auditor's Annual Governance Report.

Executive Summary:

The External Auditors will present their Annual Governance Report to the Audit and Governance Committee on 21 September 2015. The report has been placed on this agenda to ensure that members of this Committee are aware of the key issues raised.

The Annual Governance Report was still being completed when this agenda was published and so the report will follow as part of a supplementary agenda.

Reasons for Proposed Decisions:

To ensure that Members are informed of any significant issues arising from the audit of the Statutory Statement of Accounts.

Other Options for Action:

The report is for noting, no specific actions are proposed.

Report:

1. International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council's Statutory Statement of Accounts for 2014/15 is nearly complete and that they wish to present their report to the Audit and Governance Committee on 21 September.

2. As the Annual Governance Report may contain issues that this Committee should be aware of, the report has been placed on this agenda.

Resource Implications:

None.

Legal and Governance Implications:

Any legal and governance implications will be set out by the external auditors in their report.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

Statutory Statement of Accounts and associated reports made to the Audit and Governance Committee and Full Council.

Risk Management:

If the Committee did not receive the Annual Governance Report they may be unaware of a significant issue raised by the External Auditor.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

Date / Name	Summary of equality analysis
2/09/15 Director of Resources	The report is to highlight any concerns arising from the external audit. It does not propose any change to the use of resources and so has no equalities implications.