Report to the Finance and Performance Management Cabinet Committee

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Date of meeting: 26 September 2011

Epping Forest
District Council

Portfolio: Finance and Economic Development

Subject: Financial Issues Paper

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Recommendations/Decisions Required:

1. To recommend to the Cabinet the establishment of a new budgetary framework including;

2. To recommend to the Cabinet, as part of the new budgetary framework, the setting of budget guidelines for 2012/13 covering:

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

(b) District Development Fund items;

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

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

3. To recommend to the Cabinet the agreement of a revised Medium Term Financial Strategy for the period to 2015/16, and the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.

Executive Summary:

This report provides a framework for the Budget 2012/13 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

In broad terms the following represent the greatest areas of current financial uncertainty and risk to the Authority

- Local Government Resource Review
- New Homes Bonus
- Localisation of Council Tax Benefit
- Self-Financing for the Housing Revenue Account
- Possible Double-Dip Recession
- Development Opportunities
- Capitalisation of Pension Deficit Payments
- Shared Services

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2012/13.

Reasons for Proposed Decisions:

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

Other Options for Action:

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

Report:

General Fund Out-turn 2010/11

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2010/11 is being presented to Council tomorrow, but the audit has not amended any of the outturn figures. In summary the General Fund Revenue outturn for 2010/11 shows that CSB expenditure was £814,000 lower than the original estimate and £579,000 lower than the revised. The main variance, as in 2009/10, related to staff savings from vacancies.

2. The revised CSB estimate for 2010/11 reduced from £18.048m to £17.813m with the actual being £17.234m. The largest variance on growth and savings items was on waste management where the saving achieved was £106,000 greater than had been estimated. This led to the total in year saving being £103,000 higher than anticipated at £225,000. A significant variance was also seen on the opening CSB figure, which is consistent with the main variance arising from salary savings.

3. Net DDF expenditure was £1.134m lower than the revised estimate. However £462,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2011/12, giving a net saving of £672,000. Two directorates had variances between their revised and actual DDF spending of more than £100,000. Corporate Support Services underspends included £129,000 on the Planned Building Maintenance Programme and £95,000 on Asset Rationalisation projects, the funding for these projects has been carried forward. The net underspend of £128,000 in Environment and Street Scene was due to additional income from off-street parking and the leisure management contractor and an underspend on remedial works to watercourses. In addition to this, non-directorate specific items were £633,000 better than the revised estimate.

4. The non-portfolio items include the second part of the “Fleming Claim” for the repayment of VAT. This reclaim related to over declared VAT on sports tuition fees and bulky household waste collections in the period 1973 to 1997 and as the recovery had been uncertain it had not been included in the revised estimates. The inclusion of the “Fleming Claim” income and the underspend mean the balance on the DDF is higher than previously predicted at £3.269m at 31 March 2011. However, the vast majority of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Development Framework.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend of £814,000, compared to the original estimate. This translates into an increase in balances of £270,000 compared to the original estimate of a reduction of £544,000.

The Updated Medium Term Financial Strategy – still to be updated

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2010/11 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that the use of revenue balances will be £331,000 in 2011/12, £267,000 in 2012/13, £365,000 in 2013/14 and £350,000 in 2014/15 before reducing to £191,000 in 2015/16.

7. For some time Members have aligned the balances to the Council's 'Net Budget Requirement' (NBR), allowing balances to fall to no lower than 25% of NBR. The predicted balance at 1 April 2012 of £8.24m represents just over 56% of the anticipated NBR for next year (£14.61m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2016 the revenue balance will have reduced to £7.07m. This still represents 47% of the NBR for 2015/16 (£14.92m).

8. The financial position as at 1 April 2011 was better than had been anticipated, reflecting the urgency and effectiveness of the cost control measures put in place. Much work was done on the 2010/11 revised estimates to identify and reduce budgets with a history of underspending. However the outturn has shown that there are still some areas where further reductions are achievable.

9. The target saving for 2012/13 has been left at the original level of £1.3m; this decreases to £0.6m for 2013/14 and then reduces to £0.5m for 2014/15. These net savings could arise either from reductions in expenditure or increases in income. Substantial progress has already been made on the identification of savings and the individual items have been covered in reports to Cabinet. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £0.9m of DDF funds available at 1 April 2016. The four-year forecast approved by Council on 22 February 2011 predicted a DDF balance of £216,000 at the end of 2014/15 and this has increased due to the additional VAT reclaim late in 2010/11.

11. Capital balances have been updated for recent outturn figures and updated assumptions on capital receipt generation. The reduction in estimated capital receipts means that the predicted balance at 1 April 2016 falls to £8.3m. Over this four-year period the capital programme has approximately £50m of spending. Previously the need to use capital balances for revenue generating assets has been highlighted and this has been included in the Capital Strategy.

Continuing Services Budget

12. The CSB saving against revised estimate was £0.579m, compared to £0.702m in 2009/10. The prime cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £19.126m compared against a revised estimate of £19.392m. There is currently an under spend on the salaries budget in 2011/12 and this is expected to continue.

13. As already mentioned above, a number of CSB budgets were under spent and these will be closely scrutinised going forward to ensure budgets are more closely aligned with actual spending in prior years.

14. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Distributable NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As

Members have not indicated any desire to contradict Government guidance that council tax increases should continue to be frozen for next year, it is clear that the former will be the determinant. The four-year forecast, agreed in February, included the assumption that Council Tax would increase annually by 2.5% after 2012/13. Previously Members had a policy which under which increases in Council Tax had been linked with increases in the rate of inflation. For information, RPI is currently 5.2% and CPI 4.5% and inflation forecasts retain an important role in estimating future costs.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2011/12 did not achieve that objective, as funding from Government Grants and Local Taxpayers fell £171,000 below CSB. The revised estimate for this year shows no change in CSB at this time although that is likely to change as we go through the budget process.

Local Government Resource Review

16. Before considering the current consultation on the Local Government Resource Review and the replacement of Formula Grant funding with retained National Non-Domestic Rates NNDR) it is worth looking back at the Comprehensive Spending Review (CSR). The CSR only provided us with two years figures instead of the usual four because of the Government's desire to radically change the system of funding local authorities. The table below shows what now appear to be the final figures from the Formula Grant system.

	2008/09 £m	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**
Relative Needs Amount	5.455	5.457	5.464	4.302	3.901
Relative Resource Amount	-5.228	-5.096	-4.956	-2.842	-2.810
Central Allocation	8.793	8.834	8.871	6.223	5.611
Floor Damping	0.302	0.173	0.036	-0.296	-0.249
Formula Grant	**9.322**	**9.368**	**9.415**	**7.387**	**6.453**

17. The figures shown above represented a poor CSR for the Council with grant reductions of 15.2% (against the adjusted 2010/11 figures) for 2011/12 and a further 12.1% (against the adjusted 2011/12 figures) for 2012/13. The monetary and percentage changes over recent years are shown below.

	2008/09 £m	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**
Formula Grant (adjusted)	9.322	9.368	9.415 (8.710)	7.387 (7.340)	6.453
Increase/(Decrease) £	0.093	0.046	0.047	(1.323)	(0.887)
Increase/(Decrease) %	1.0%	0.5%	0.5%	(15.2%)	(12.1%)

18. In addition to the detailed figures for 2011/12 and 2012/13, headline control totals for local authority funding were given for 2013/14 and 2014/15. These control totals show further reductions of approximately 1% in 2013/14 and 5% in 2014/15. The extent to which these figures change will depend on the conflicting demands of progress towards deficit reduction and the state of the economy. At the moment the Government is sticking very strongly to the mantra of deficit reduction but any further weakening in the already fragile recovery will bring renewed demands for some form of stimulus.

19. Having set the context, I shall move on to consider the Local Government Resource Review. On 18 July the Department for Communities and Local Government (DCLG) launched a consultation "Local Government Resource Review: Proposals for Business Rates Retention", this is a 46 page document with 33 detailed questions and a response deadline of 24 October. The Government feels change in the system of local authority funding is necessary to provide a financial incentive to local authorities to promote business growth in

their areas, currently any increase in NNDR is paid into the pool with no direct local benefit. By replacing Formula Grant with NNDR the Government is also seeking to increase the financial independence of local authorities. There is little authorities can do to increase their Formula Grant allocation but in theory they will be able to encourage growth in their rating lists and so increase their funding.

20. The proposals for change include restrictions so that authorities will not be allowed to keep all NNDR; a process of equalisation will remain to redistribute funds between authorities. The amount DCLG give or take will be fixed, allowing authorities to keep growth above this level. If growth is "disproportionate" DCLG will take back a share of it for redistribution and DCLG will retain the right to "reset" the amounts given or taken in future years.

21. The main consultation paper has now been supplemented by eight technical papers, issued 19 August, which cover –

1. Establishing the Baseline (49 pages, 19 questions)
2. Measuring Business Rates (22 pages, 4 questions)
3. Non-Billing Authorities (20 pages, 4 questions)
4. Business Rates Administration (24 pages, 8 questions)
5. Tariff, Top Up and Levy Options (44 pages, 14 questions)
6. Volatility (18 pages, 2 questions)
7. Revaluation and Transition (22 pages, 5 questions)
8. Renewable Energy (20 pages, 7 questions)

22. Some, but by no means all, of the key questions are –

1. How should the baseline be set for rate retention?
2. How will the levy on disproportionate benefit be calculated?
3. How will the levy be used to fund a safety net?
4. How do you balance the need to protect some authorities with the need to provide a strong incentive for growth?
5. How will resets work?
6. How will funds be pooled in areas and what areas can be used for pooling?
7. Should the current system of reliefs be maintained?

23. This proposal represents the biggest change to local authority funding for many years and is complicated by the number of inter-related moving parts. Given the number of different variables and the options for each variable it is extremely difficult to estimate the effects over the medium term. The Government have stated that for the current CSR period the baseline will be set at the level of Formula Grant currently received, after adjustment to reflect the reductions in the overall control totals.

24. Essex authorities are working collaboratively on this issue and consultants have been engaged to assist with consultation responses and financial modelling. This clearly has the potential to be a very divisive issue as authorities in thriving areas with good growth prospects will have very different views to those in need of regeneration. Similarly, the idea of pooling is an interesting concept as every authority will want to pool with someone they believe has better prospects than themselves and that simply cannot work. One final point worth making is that NNDR bills will still be calculated in the same way and that there is no proposal to allow authorities to set charges locally.

25. A draft consultation response will be presented to the Overview and Scrutiny Committee on 18 October and progress on this proposal will be closely monitored. However, it is likely that the final version of the Medium Term Financial Strategy (MTFS) that will be presented to Council in February will still need to make assumptions about this policy and its outcomes.

New Homes Bonus

26. The Government has a consistent policy of encouraging development. In the same way that retaining increases in NNDR incentivises Councils to promote business growth, the New Homes Bonus (NHB) provides an incentive to promote home building. When the budget was set for 2011/12 the full details of and funding for the NHB had not been confirmed. Because of this uncertainty, and concern about possible legal challenges if Councils were felt to be making planning decisions for financial gain, no income from the NHB was allowed for in the 2011/12 budget.

27. It is now clear that the NHB will form a substantial part of local authority funding for the foreseeable future. The technical papers mentioned above reveal that from 2013/14 funding for NHB will be top sliced from the national NNDR pool. Even though only three years NHB will be payable in 2013/14 the maximum six years funding will be top sliced, with the excess being redistributed to local authorities in some way as grant. The exact mechanics and amounts are still to be determined but it appears that the NHB is intended to remain as an incentive on top of the basic level of funding that local authorities will get through retained NNDR. As the funding is top sliced and then re-allocated on the basis of relative performance in housing growth there will be a strong cumulative redistributive effect, this will penalise areas of low housing growth.

28. The amount of NHB payable for a year is determined by the annual change in the total number of properties on the Council Tax list in October. This means that the bonus is payable on both new housing and empty properties brought back in to use. The increase in the tax base is multiplied by a notional average Council Tax figure of £1,439, with an additional premium for social housing. The calculated figure is then shared with 20% going to the county council and 80% to the district, with the amount being payable for six years. For 2011/12 the Council will receive £295,000 and the amount due in respect of growth for the year to October 2011 will be approximately £325,000. These two figures combined will give a total NHB income figure for 2012/13 of £620,000.

29. The key question is how much of this income should be taken into the CSB budget for each year through the life of the MTFS. At one extreme it could be argued that to build any income into the CSB would make the Council vulnerable to judicial review on planning decisions and may not be prudent until there is clarity over the full make up of and inter-relationships between the different funding streams. At the other extreme it could be argued that £300,000 of income should be added to the CSB for every year from 2011/12 going forward up to the maximum of six years (2011/12 £0.3m, 2012/13 £0.6m, 2013/14 £0.9m 2014/15 £1.2m, 2015/16 £1.5m and 2016/17 and onwards £1.8m). On one hand, if no income is taken into account severe reductions could be made to services that ultimately prove to be unnecessary, from a financial point of view. On the other, if too much income is allowed for the Council could find itself having to implement substantial cuts on a short time scale. Although it should be remembered that our reserves exist as a buffer against any need to make sudden changes.

30. A prudent position at the moment seems to be to allow for the income for 2011/12 and 2012/13 but no additional income beyond that until the full outcomes of the Local Government Resource Review are known. It is unlikely that any adjustment to the system would remove NHB already earned as this would undermine the policy. On that basis CSB income of £295,000 has now been added to 2011/12 and a further £325,000 to 2012/13.

Localisation of Council Tax Benefit

31. Council Tax Benefit (CTB) is a means tested benefit that is available to help those on low incomes meet their Council Tax bills. The current caseload for CTB at the Council is approximately 8,900, generating annual expenditure of £10.3m. This is currently fully funded by Government, with a system of payments on account and a year end grant claim. CTB is currently a national system with national regulations determining entitlement.

32. The Government is determined to reduce the overall cost of benefits to the country and is making numerous changes through the Welfare Reform Bill. As part of the Welfare Reform Bill the benefits system is meant to be streamlined and simplified through the introduction of Universal Credit. It is not yet clear how Universal Credit will operate or indeed how universal it will really be as it seems a number of benefits will not be included in it. One proposal that is clear in the Welfare Reform Bill is the abolition of Council Tax Benefit. The Government is saving 10% (£490m) on the national cost of CTB by localising it from 2013/14. It will be for each local authority to determine their scheme of CTB but they will only receive 90% of the current cost.

33. At one extreme authorities could implement a scheme at 90% of the current scheme and those in receipt of CTB would have to pay more, for this Council this would have an average impact of £116 p/a on claimants. However, it has become clear that the Government will require pensioners to be protected and as they make up half the caseload this doubles the impact to £232 p/a. It is also possible that the final scheme may require protection for vulnerable working age claimants which could leave working age non-passported claimants with bills of £720 p/a. At the other extreme authorities could top up Government funding from their own resources, for this Council the impact would be £1.034m.

34. If Members decide not to provide any additional funding it will clearly be very difficult for some individuals to pay their Council Tax. This will probably increase the costs of collection, reduce collection rates and increase bad debts. This will cause the least difficulty for the Council's own budgets but will have a more significant impact on the County Council, as approximately 75% of each Council Tax bill goes to them.

35. If Members decide to provide additional funding it is likely that the policy will be unpopular with some residents who do not qualify for CTB. These residents could argue that either they are paying more Council Tax to subsidise those on benefit (if the funding is provided through increases in Council Tax) or that they are receiving poorer services (if the funding is provided through savings in other service areas). Providing additional funding will place the greatest burden on this Council's budgets and will minimise the impact on the County Council. There is also a significant financial risk that the number of claimants increases beyond the amount estimated, a strong possibility in the current economic climate.

36. There are many other practical difficulties with localising CTB. It is possible that a "postcode lottery" will emerge with many different schemes being constructed. This in turn raises the difficulty of system suppliers having to develop many different add-ons, for which there will be very little time to test and implement. There are also some difficult policy conflicts for the Government to consider. Firstly, given the basic requirement to "make work pay" how local CTB schemes dovetail with Universal Credit will need to be carefully calculated. Secondly, giving the Council a grant of £9.3m to administer CTB locally reduces the financial independence that is meant to be an aim of the Local Government Resource Review.

37. The consultation on localising CTB closes on 14 October and a draft response will have been considered by the Finance & Performance Management Scrutiny Panel on 20 September. How this policy develops and the extent of local policy choices in it will be closely monitored and reported to Members through the budget process. At this time it has been assumed that no additional local funds will be used to top up the Government grant.

Self-Financing for the Housing Revenue Account

38. A number of reports on this issue have already gone to Scrutiny Panels, Cabinet and Council. Currently the Council makes an annual payment of £11.3m into the national subsidy system. From 2012/13 annual payments into and out of the national subsidy pool will cease and instead authorities will either be required to take on debt or will have an amount of debt repaid for them. The Council was initially advised that the debt it would be required to finance would be approximately £180m. The final figure will not be confirmed until January 2012 but

is likely to be closer to £190m, due to the continuing high levels of inflation which feed into the subsidy calculations.

39. A structured approach has been followed to deal with each of the necessary steps. This has required the amendment of the Treasury Management Strategy, as the settlement date has been brought forward from April 2012 to late March 2012. Cabinet have considered the extent of the house building programme that is to be pursued. The next stage is to confirm the amount of investment that will be undertaken in the existing stock and to assist with this a number of options for the 30 year business plan are currently being prepared. A decision on the business plan will determine when cash becomes available to repay borrowing and then allow the examination of funding methods to continue.

40. Traditionally the cheapest and easiest route for local authorities to borrow has been through the Public Works Loans Board (PWLB). However, to discourage what was seen as excessive borrowing by local authorities the Government increased the margin on PWLB loans to 1% over gilts. This meant there were opportunities to obtain loans in the financial markets at cheaper rates than those offered by the PWLB. The Council was approached by several merchant banks and took the decision to obtain a credit rating and thoroughly examine all of the alternative options to the PWLB. On 19 September Danny Alexander announced at his party conference that loans made as part of the self-financing settlement would have a discount of approximately 75 basis points applied to them. As the largest saving against PWLB rates that any of the merchant banks had been suggesting was in the region of 30 basis points there now seems little point in pursuing any other option than the PWLB.

41. Earlier in the consultation process for self-financing concerns were raised about two possible impacts on the General Fund (GF). The first of these was the requirement to make Minimum Revenue Provision (MRP) on the nominal borrowing between the GF and the HRA. In the draft regulations the DCLG have now confirmed that changes due to self- financing do not have to be taken into account in determining any requirement to make MRP. The other area of concern was the interest to be charged between the HRA and GF. This issue is still to be determined but it currently appears that authorities will have the power to set their own rates of interest for borrowing between funds. So at this point in time both of the significant concerns have been addressed, although (as seen with the PWLB) a further policy shift cannot be ruled out.

<u>Possible Double-Dip Recession</u>

42. Recent weeks have seen reductions in growth predictions for the economy and increases in the unemployment statistics. In addition to this DCLG statistics have shown a substantial rise in the number of homeless people. Between April and June 11,820 applicants were accepted by councils as being in need of homeless help and therefore eligible to go on a council house waiting list, this is a 17% increase on the same period in 2010. Additionally, there are ongoing concerns about Greece and other Euro Zone economies which have caused wild fluctuations in share prices and caused fresh concern about the banking sector.

43. The changes discussed above, with future local authority financing coming from retained local NNDR and the localisation of CTB, transfer substantial financial risks to local authorities from Government. If once these reforms are in place a large employer or employers were to close this could have severe consequences for the Council. There could be a combination of reduced income because of the reduction in NNDR, increases in claims for CTB and increased demands on services. So whilst the devolution of genuine power and freedoms would be welcomed, Members also need to be aware of the increased risks.

<u>Development Opportunities</u>

44. There is a separate Cabinet Committee charged with looking at and co-ordinating asset management issues so I do not intend to trespass on their territory. However, it is necessary

to touch briefly on the number of development opportunities that currently exist in the district and their potential benefits. There is the possibility of a retail park in Loughton and a mixed use redevelopment of the St Johns area in Epping amongst the developments. The Council has had the requirement for capital resources to be used for revenue generating schemes as part of the Capital Strategy for sometime. If schemes proceed it will only be after rigorous examination to ensure business cases make sense and a financial benefit is anticipated. The economic boost offered by such schemes could benefit the Council in several ways, mirroring the multiple threats of a double dip recession.

45. Given the lack of certainty at this time about which of the potential sites will progress, and indeed which of the schemes for a given site, the MTFS and capital projections do not include either any capital financing requirement or any revenue projections. The only budgets that are included for the developments are those that Members have already approved for preliminary consultancy and planning works.

Capitalisation of Pension Deficit Payments

46. The Council has an established policy of seeking annual capitalisation directions for pension deficit payments. There are strict financial criteria laid down by the Government that you must satisfy to be eligible for a capitalisation direction. If you satisfy the criteria you get a Gate 1 approval but it is only after the Government has considered all Gate 1 approvals in aggregate that it decides the amount of Gate 2 or final approvals.

47. Since the capitalisation policy was put in place the Council has generally been successful in obtaining directions. A direction was first applied for in 2005/06 and one was obtained for the full amount requested. It was in 2006/07 that the Two Gate System was introduced and that year saw all applicants receive directions for only 57% of the amounts applied for. In subsequent years the Government has issued directions for the full amounts applied for, apart from 2010/11 when directions were issued for only 38% of the amounts applied for.

48. For 2011/12 the financial criteria were doubled so that the amounts applied for had to exceed both 10% of reserves and 0.5% of budgeted expenditure. On 27 July we received identical letters dated 22 July refusing our applications for both GF & HRA. The letters state that the department was not satisfied that meeting the expenditure from revenue would cause “an unacceptable adverse impact on services” or that “meeting the pension costs from revenue resources would cause exceptional financial difficulties for EFDC”. These rejections confirm that all the other required criteria have been met.

49. The picture in 2011/12 was complicated by a number of large applications for redundancy costs, directions were issued for some £207m of redundancy costs across the country. This was compounded by DCLG deciding on an “all or nothing” approach for 2011/12, unlike in 2006/07 and 2010/11. A view now needs to be taken on how likely it is that the Council will be able to obtain capitalisation direction again in the future. There is no indication that the capitalisation application process will not continue and it is hoped that redundancy costs across the country will not be as large in subsequent years.

50. The pre 2005/06 deficit payment has remained in the CSB, so although we apply for the full value of the deficit payments it is only the amount over the base that we have ever capitalised. The refusal of the applications for 2011/12 will mean unbudgeted charges to the GF of £560,000 and to the HRA of £265,000. Given the ongoing uncertainty about future capitalisations it would be prudent to now bring the balance of the deficit payments into the CSB. This would not prevent future capitalisation applications being made and the position could be reviewed again if applications in subsequent years proved successful.

Shared Services

51. A "Memorandum of Understanding" has been signed with the two other West Essex districts to jointly explore possibilities for shared services. This grouping provides a focus for discussions but other opportunities across Essex and beyond will also be explored where they offer genuine benefits and a sound business case can be constructed. The issues of NNDR and CTB discussed above are likely to generate opportunities for joint working and risk sharing.

52. The insurance claims service provided for Uttlesford District Council has been expanded to cover advice on policies and extending this arrangement to include Harlow District Council was evaluated but proved not to be a workable proposition at this time. Other opportunities are also being examined but are still at a preliminary stage. Another shared service the Council continues to benefit from is the Essex Procurement Hub hosted by Braintree District Council; this also includes Castle Point, Colchester and Maldon Councils.

DDF

53. The carry forward of £462,000 represents a decrease of £61,000 on the £523,000 of slippage for 2009/10. This improvement is partly due to the tighter controls on DDF budgets as budgets over a given age are no longer carried forward automatically but have to be justified. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions need to be answered over whether it was really a priority and if that money could have been used for a more urgent purpose.

54. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £0.9m of DDF available at 1 April 2016.

The Capital Programme

55. Council house sales remained in single digits for the third year in a row, although the values did slightly exceed the amounts allowed for in the revised estimates. It is not anticipated that sales will return to the previous higher levels for some time. This is consistent with the two completions so far in the first five months of 2011/12. The Capital Programme has already been adjusted to reflect this anticipated lower level of Council house sales.

56. Significant receipts have previously been generated through the sale of other assets. Land values in some areas are starting to improve again and a number of potential projects are currently being evaluated. As non-housing receipts are not included in the estimates before completion has occurred no allowance has been made in the MTFS.

57. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 20 June 2011 highlighted that the underspend of £1.49m was consistent with the previous years figure of £1m and maintained the improvement on more substantial underspends in prior years. Non-housing expenditure was £0.64m below the estimate at £2.58m, whilst housing expenditure of £7.35m was £0.85m below the estimate of £8.2m. The slippage in the programme will be carried forward to subsequent periods.

The Council Tax

58. Band D Council Tax increased by 1.5% for 2010/11 following increases of 2.5% in the previous two years. The Government has made it clear that it expects authorities to freeze the Council Tax for both 2011/12 and 2012/13. The Council complied with this instruction in 2011/12 and it is anticipated that this will also be the case for 2012/13. From 2013/14 onwards it is assumed that future increases will not exceed 2.5%.

A revised Medium Term Financial Strategy

59. Annexes 1(a&b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £1.25m in 2011/12, increasing to £1.31m in 2012/13 before reducing to £0.6m for 2013/14 and £0.5m for 2014/15. These savings would give total CSB figures for 2011/12 revised of £15.84m and 2012/13 of £14.88m.

60. This proposal sets DDF expenditure at £1.57m for the revised 2011/12 and £0.8m for 2012/13, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

61. No predicted non-housing capital receipts are being taken into account, as any developments are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £13.1m at 1 April 2011 to £8.3m at 1 April 2016.

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

Conclusion

63. The Council is in a stronger financial position than had been anticipated. This is due to the greater level of savings in 2010/11, the transfer of non-housing property to the General Fund, savings being negotiated on key contracts and reductions in underspent budgets. The DDF is also more buoyant than anticipated due to another substantial VAT reclaim. However, there are significant uncertainties and challenges ahead. Through the proposals to retain NNDR and localise CTB the Government is adding to the existing incentive of the New Homes Bonus to encourage authorities to promote development. Those authorities that are relatively more successful in growing their council taxbase and NNDR list will gain at the expense of others. But with these opportunities comes financial risk and given the overall problems in the UK and world economies it is debateable whether now is a good time to be taking on more financial risk.

Resource Implications:
The report covers resource implications over a four-year period and provides an updated Medium Term Financial Strategy.

Legal and Governance Implications:
None.

Safer, Cleaner, Greener Implications:
The Safer, Cleaner, Greener initiative is considered in the report.

Consultation Undertaken:
None.

Background Papers:
None.

Impact Assessments:
No equalities impacts.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges.