Report to the Finance and Performance Management Cabinet Committee

Epping Forest District Council

Report Reference: FPM-012-2012/13
Date of meeting: 20 September 2012

Portfolio: **Finance and Technology.**

Subject: **Financial Issues Paper.**

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

Democratic Services: **Gary Woodhall** **(01992 564470).**

Recommendations/Decisions Required:

(1) To recommend to the Cabinet the establishment of a new budgetary framework including the setting of budget guidelines for 2013/14 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.

(2) To recommend to the Cabinet the agreement of a revised Medium Term Financial Strategy for the period to 2016/17, 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 2013/14 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
- Business Rates Retention
- Welfare Reform
- New Homes Bonus
- Double-Dip Recession
- Development Opportunities
- Community Budgets
- Organisational Review

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 2013/14.

Reasons for Proposed Decision:

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

Other Options for Action:

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

Report:

General Fund Out-turn 2011/12

1. Members have already received the outturn reports together with explanations for the variances. The Statutory Statement of Accounts for 2011/12 is being presented to Council on 27 September, but the audit has not amended any of the outturn figures. In summary the General Fund Revenue outturn for 2011/12 shows that Continuing Services Budget (CSB) expenditure was £601,000 lower than the original estimate and £562,000 lower than the revised. The main variance, as in 2010/11, related to staff savings from vacancies.

2. The revised CSB estimate for 2011/12 reduced from £15.682m to £15.643m with the actual being £15.081m. The largest variance on growth and savings items was on the Police Community Support Officers as the termination of the Council's contribution was negotiated earlier than had been anticipated, saving £63,000 more than had been estimated. This led to the total in year saving being £111,000 higher than anticipated at £1.861m. A significant variance was also seen on the opening CSB figure, which is consistent with the main variance arising from salary savings.

3. Net District Development Fund (DDF) expenditure was £538,000 lower than the revised estimate. However £446,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2012/13, giving a net saving of £92,000. Three directorates had variances between their revised and actual DDF spending of more than £100,000. The largest variance was £256,000 on Corporate Support Services, where underspends included £100,000 on the changes to Land Search income and £73,000 for Planned Building Maintenance, the funding for these projects has been carried forward. Finance and ICT had an underspend of £141,000, with the largest item being £72,000 in respect of changes to concessionary travel, only £10,000 has been carried forward for this item. Planning and Economic Development had an underspend of £101,000, arising largely from the Local Plan and all £93,000 of the underspend for this scheme has been carried forward.

4. The non-portfolio items include the latest part of the "Fleming Claim" for the repayment of VAT of £253,000. This reclaim related to over declared VAT on trade waste collections in the period 1973 to 1996. The overall movements on the DDF have combined to produce a balance that is higher than previously predicted at £3.457m at 31 March 2012. However, the vast majority of this amount continues to be committed to finance the present programme of DDF expenditure, particularly the Local Plan.

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 £601,000 and the variance on Government Grants of £201,000, compared to the original estimate. This translates into an increase in balances of £631,000 compared to

the original estimate of a reduction of £171,000.

The Updated Medium Term Financial Strategy

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2011/12 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will increase by £112,000 in 2012/13 before reducing in subsequent years by £291,000 in 2013/14, £521,000 in 2014/15 and £481,000 in 2015/16 before reducing by £281,000 in 2016/17.

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 2013 of £9.313m represents over 63% of the anticipated NBR for next year (£14.615m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2017 the revenue balance will have reduced to £7.739m. This still represents 54% of the NBR for 2016/17 (£14.301m).

8. The financial position as at 1 April 2012 was better than had been anticipated, reflecting the success of the cost control measures put in place. Further work was done on the 2011/12 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 2013/14 has been reduced down from the original level of £450,000 to £250,000. This is followed by targets of £400,000 for 2014/15 and 2015/16 which then reduces to £200,000 for 2016/17. These net savings could arise either from reductions in expenditure or increases in income. Progress has already been made on the identification of savings, with some of the individual items being 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 £1.091m of DDF funds available at 1 April 2017. The four-year forecast approved by Council on 14 February 2012 predicted a DDF balance of £1.309m at the end of 2015/16.

11. Capital balances have been updated for recent outturn figures. The ongoing low level of capital receipts means that the predicted balance at 1 April 2017 falls to £7.894m. Over this four-year period the capital programme has approximately £67m of spending, inclusive of the HRA. 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 £0.562m, compared to £0.579m in 2010/11. The prime cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £18.847m compared against an estimate of £19.796m. There is currently an under spend on the salaries budget in 2012/13 and this is expected to continue, although at a reduced level as a significant part of the previous underspends has come from the vacant Chief Executive's post.

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 be limited 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 under which increases in council tax had been linked with increases in the rate of inflation. For information, RPI is currently 3.2% and CPI 2.6% (July 2012 figures, released in mid August) and inflation forecasts retain an important role in estimating future costs. However, in these ongoing difficult economic times Members have indicated a desire to limit the burden on hard pressed tax payers and so only a 1% increase has been allowed for in 2013/14.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2012/13 achieved that objective, as funding from Government Grants and Local Taxpayers was £13,000 above CSB. The revised estimate for this year shows a net reduction of approximately £100,000 in CSB at this time although that is likely to change as we go through the budget process.

Local Government Resource Review

16. The current consultation on Business Rates Retention is a separate item earlier on the agenda and the main issues arising from it are discussed below. However, before doing that it is worth mentioning the Local Government Resource Review and 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 we thought at one time would 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
Council Tax Freeze Grant	-	-	-	0.203	0.203
Formula Grant	**9.322**	**9.368**	**9.415**	**7.590**	**6.656**

17. The figures shown above represented a poor CSR for the Council with grant reductions of 12.9% (against the adjusted 2010/11 figures) for 2011/12 and a further 11.8% (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)	7.590 (7.543)	6.656
Increase/(Decrease) £	0.093	0.046	0.047	(1.120)	(0.887)
Increase/(Decrease) %	1.0%	0.5%	0.5%	(12.9%)	(11.8%)

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 showed further reductions of approximately 1% in 2013/14 and 5% in 2014/15. In constructing the MTFS in February it was felt that greater reductions were likely and so the amounts were increased to 3% for 2013/14 and 7% for 2014/15. When the current consultation was issued it showed reductions of 12% for 2013/14 and 9% for 2014/15. However, there was something of an outcry at this as the Department for Communities and Local Government (DCLG) were proposing to remove from the control totals a full six years worth of New Homes Bonus (NHB)

funding amounting to £2bn. It was proposed that the amount DCLG did not need for NHB would then be re-distributed. There was concern that a large amount of money would disappear as part of this process and that notifications of amounts to be re-distributed would come too late for inclusion in 2013/14 budgets. So instead of taking out too much money and then re-distributing some of it, an alternative proposal has been added to the consultation that the DCLG only top slices what is estimated to be necessary, £500m for 2013/14 and £800m in 2014/15. This alternative proposal produces funding reductions of 4.4% for 2013/14 and 9.6% for 2014/15. To illustrate what these various percentage changes mean the monetary values for funding are given below.

	2013/14 **£m**	**2014/15** **£m**
CSR Reductions 1% and 5%	6.589 (-0.067)	6.260 (-0.329)
MTFS Reductions 3% and 7%	6.456 (-0.200)	6.004 (-0.452)
Consultation Original Reductions 12% and 9%	5.857 (-0.799)	5.330 (-0.527)
Consultation Revised Reductions 4.4% and 9.6%	6.363 (-0.293)	5.752 (-0.611)

19. So if the original consultation proposal was followed the funding reduction would be approximately £600,000 worse than was allowed for in the previous MTFS, although this may be off-set to some degree by the later redistribution. In this context, the revised consultation proposal has to be seen as good news as for 2013/14 it is only £93,000 worse than the previous MTFS. In the absence of any reliable information for 2015/16 and 2016/17 an assumption has been made that further reductions of 3% will apply to both years.

20. Those that have followed the Local Government Resource Review may be asking why is this relevant if formula grant is being replaced with locally retained business rates? Unfortunately the DCLG has decided that instead of a system of full local retention of business rates and an end to Formula Grant there will only be 50% retention of business rates and a much reduced system of Formula Grant. This means central control of funding will remain in place and the four block funding model will not be retired just yet.

Business Rates Retention

21. The current consultation document has already been mentioned, this is a 250 page document (with several supplementary tables and additions) with 84 detailed questions and a response deadline of 24 September. The Government claims the scheme is necessary to provide a financial incentive to local authorities to promote business growth in their areas, as currently any increase in NNDR is paid into the pool with no direct local benefit. By replacing part of Formula Grant with NNDR the Government is claiming 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.

22. To have any chance of understanding how this system will work it is necessary to start with some of the key terms and definitions, these are taken from the consultation paper –

a) Start up funding allocation - A local authority's share of the local government spending control total which will comprise its Revenue Support Grant for the year in question and its baseline funding.

b) Baseline funding level - The amount of a local authority's start up funding allocation which is provided through the local share of the estimated business rates aggregate at the outset of the scheme.

23. Put more simply, the start up funding allocation is the total money an authority has to fund itself, excluding council tax and fees and charges. If the revised consultation figure from the table above is the funding reduction DCLG ultimately settles on that will give a start up funding allocation for 2012/13 of £6.363m.

24. The start up funding allocation will be a combination of Revenue Support Grant and retained business rates, using data from the consultation paper it appears that in aggregate local authorities will get around 44% from retained business rates and 56% from Revenue Support Grant. This will vary between individual authorities depending on the relative sizes of their non-domestic rating lists and their start up funding allocation.

25. The local share of the estimated business rates aggregate will be apportioned between all billing authorities, to produce billing authority business rates baselines. This will be done using proportionate shares, based on contributions to the rating pool over the last five years. Each billing authority business rates baseline will be further split between the billing authority and any relevant major precepting authorities so that each authority has its own business rates baseline.

26. Each authority's business rates baseline will be compared to its baseline funding level to determine tariff and top up amounts. Where an authority's business rates baseline is higher than its baseline funding level it will pay the difference to DCLG as a tariff. Where an authority has a baseline funding level which is greater than its business rates baseline, it will be paid the difference between the two figures as a top-up. Generally, most districts will pay a tariff and most counties will receive a top-up. The amounts set as tariffs and top-ups will be fixed until the system is reset, although they will be increased annually by the September RPI figure. It is worth pointing out here the financial risk that is being placed on local authorities who will have to fund tariff payments which will increase annually by RPI regardless of what the growth or contraction is in the rating list.

27. Having established the starting point it is worth considering what happens subsequently as a result of growth in the non-domestic rating list. Only 50% of business rates are in the system to start with and where there is growth a large proportion of it is removed by DCLG as a levy, on the basis that this is necessary to fund the safety net. The consultation includes the proposal of a "proportional levy ratio". This means that for every 1% increase in the business rates baseline the authority can see no more than a 1% increase in its baseline funding, using this authority's figures as an example –

Assuming growth of £1m in the business rates.

Initial baseline funding level =	£3.133m
Initial business rates baseline =	£13.372m
Amended baseline funding level =	£3.367m (increase of 7.47%)
Amended business rates baseline =	£14.372m (increase of 7.47%)

The Council gets to keep only £234,000 of the £1m growth.

28. Whilst the example for this authority shows 77% of any growth goes to DCLG this is even worse for an authority like Uttlesford which has an even higher business rates baseline and an even lower baseline funding level, this leads to Uttlesford only retaining approximately 10% of any growth. It could be asked how effective an incentive this system is to encourage additional effort on economic development when some authorities will retain 10%, or less, of any growth.

29. The justification for the levy is the need to fund a safety net for authorities who suffer substantial reductions in their rating lists. An exact percentage has not been specified yet that authorities must suffer before the safety net comes into play, but the consultation suggests somewhere between 7.5% and 10%. If a hypothetical authority had a £10m start up funding

allocation and received £4.4m in baseline funding a safety net at 10% would mean it would have to see a reduction of more than £440,000 before receiving any safety net funding. Over time it will be interesting to see how funding collected from the levy and payments made by the safety net balance out. At the moment the scales do not appear evenly balanced and DCLG seem to be ensuring very little financial risk remains with them.

30. One other aspect of the new scheme worth mentioning is the ability to pool with other authorities to share risk and possibly reduce levy payments. Initially DCLG had seemed very keen on pooling as it would simplify the working of the system overall and incentivise joint working between authorities. However, this enthusiasm seems to have reduced as the current consultation contains no incentives to pool and in parallel to the consultation DCLG have set out an unfeasible timetable for authorities to comply with if they want to pool. Given that the mechanisms of the scheme are still subject to consultation it is impossible to calculate for a given authority what the benefits and risks of pooling would be. At the moment it seems that although most Essex authorities are keen on pooling in principle, no hard agreements can be achieved until all of the details are more certain. DCLG have stated that it will be possible for authorities to start or change pools in 2014/15 and those that do not pool for 2013/14 will not be prevented from subsequently doing so.

Welfare Reform

31. There are a number of welfare reforms in progress but the single most significant for district councils is the replacement of Council Tax Benefit with Local Support for Council Tax. A number of detailed reports on this subject have come to this Committee and also to Cabinet so I will only touch on some of the main points in this report. Council Tax Benefit is a national scheme paid for centrally by the Government. From 1 April 2013 councils have to have in place their own local scheme and they will only receive 90% of the current cost of Council Tax Benefit to fund it. This funding is fixed so the financial risk of an increasing caseload lies with district councils. This is a particular problem given that the change from a benefit to a discount is likely to encourage some people to claim who had been put off by the stigma previously and of course any worsening in the state of the economy could also see claimants increase.

32. The saving needed from the current cost of Council Tax Benefit is approximately £1m. To achieve this saving some radical changes are necessary to the current scheme and full support for council tax bills will no longer be possible. This will mean people who have never had to pay council tax before will now be faced with a bill of approximately 20% of the full charge. Essex authorities have worked collaboratively on local schemes and the most common charge is 20% although this does vary between 15% and 35% depending on the how the current caseload is made up. This is because even though the scheme is described as local there are still some central requirements like those of pensionable age still being eligible for full benefit. Consequently if you have a higher percentage of pensioners in your caseload you will have to impose a higher charge on working age claimants.

33. The Council, in common with other Essex authorities, put a draft scheme out for a six week consultation from 1 August. Responses are still being analysed and will be taken into account in formulating the final scheme before it is put to Council for approval.

34. Before leaving Local Support for Council Tax it is worth mentioning an area that had concerned town and parish councils. As the local schemes provide a discount rather than a benefit they reduce the taxbase, which has implications for all precepting authorities. This is a difficult issue for district councils to work through and one that many town and parish councils simply thought was beyond them. Thankfully DCLG have acknowledged this as an unintended consequence and issued a consultation that could result in town and parish councils not being affected.

35. Some of the other key welfare reforms that will affect residents and the Council are Universal Credit, the weekly benefits cap and the “bedroom tax”. Universal Credit (UC) is

meant to simplify the welfare system by replacing a number of existing benefits with a single monthly payment. One of the main problems with UC is that it starts on 1 October 2013 for new cases and that existing cases will migrate over a number of years, in a manner still to be confirmed. This means the existing housing benefit system will need to remain in place but will gradually decline. It also means it will not be possible to fully align work incentives with local council tax support schemes until the commencement of their second year of operation on 1 April 2014. This situation is likely to be confusing for the public, for example two neighbours one an existing housing benefit claimant and one a new UC claimant. These people would have different contact points and receive different amounts of money at different times.

36. Before leaving UC it is worth mentioning the small matter of the nationwide IT system that is required to make UC work but that most commentators believe will not be ready in time. There is also the issue that ultimately when UC is fully operational district councils may be left with redundant housing benefit staff and systems. The DWP have stated that UC is so different from housing benefit that there is no right for staff to transfer under TUPE and that they will not be required to compensate councils for redundancy costs. This view is being challenged by the Local Government Association.

37. The weekly benefit cap will limit the maximum amount of benefit that people can receive. Where entitlement exceeds the cap the Department for Work and Pensions will notify the person's council who will then have to deduct the excess amount from the person's housing benefit. The "bedroom tax" will also restrict housing benefit as if someone is deemed to be under occupying a property (i.e. the property has more bedrooms than the DWP criteria specify for their circumstances) their housing benefit will be reduced by 14% for one bedroom and 25% if they have two more bedrooms than they need. This does create an issue for families whose children may be leaving home and of course for local authorities and social landlords who may not always have properties available that exactly match the criteria for a given family.

<u>New Homes Bonus</u>

38. There was concern with the re-working of local government funding that the New Homes Bonus (NHB) might have been removed or diminished in some way. This authority has done relatively well from NHB and £715,000 is currently included in CSB income, £295,000 in respect of 2011/12 and £420,000 in respect of 2012/13. It is clear that the Government wants to incentivise authorities to promote both economic and residential development and that as part of that NHB will remain as a key funding stream. As the funding for NHB is top sliced from the control totals 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.

39. 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 2013/14 the Council will receive approximately £450,000 and it is proposed to add that amount to the CSB income figure.

40. A question remains of 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.

41. A prudent position at the moment is to allow for the income for 2011/12, 2012/13 and 2013/14 but no additional income beyond that, as in theory the council tax base could in future reduce. This is unlikely given that the Council itself is embarking on a house building programme and that demand for housing in the district remains high. It is possible that in future years once the Local Plan has been approved a clearer picture may emerge on future housing growth.

Double-Dip Recession

42. Recent weeks have seen reductions in growth predictions for both the domestic and European economies, and unemployment remains a common concern. In addition to this public borrowing statistics have been worse than anticipated and may herald further austerity measures. Assurances from the European Central Bank have helped provide a bounce for the Euro but there is still a widely held view that it is inevitable that Greece will eventually have to revert to its own currency. Overall prospects for economic growth are not good.

43. The changes discussed above, with local authority financing coming from retained business rates and the localisation of council tax support, 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.

44. The recession also has a damaging effect on the housing market. Recent statistics have shown that many developers have banked land and planning approvals but are not willing to build until market conditions improve. This limits the income that could come from the New Homes Bonus. A final concern on the economy is the potential effect on the market at North Weald, which is a significant income stream. All of the Council's key income streams will continue to be closely monitored.

Development Opportunities

45. 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 the double dip recession.

46. 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.

Community Budgets

47. One of the Government's ideas for public sector reform is the combining of budgets of different public sector bodies within an area to provide an overall Community Budget. A number of pilot areas have been selected across the country to examine various themes and projects to seek better overall value for money from public expenditure. Essex is one of the pilot areas and the County Council have been working on a number of business cases. This work has included projects on families with complex needs, domestic abuse, reducing re-offending and asset management.

48. Whilst the concept of co-ordinated spending and efforts to achieve better overall outcomes are laudable, there is a concern to protect the interests of this district. The business cases are not yet fully developed but there are troubling aspects to some of them. For example, the asset management paper suggests county wide co-ordination of property with assets no longer being held and controlled by individual authorities. This may suit authorities with few assets and little property related income but it could have dire consequences for this authority.

49. It will be important going forward that Members are fully aware of all the financial and policy implications of Community Budgets, or other similar schemes. Before any business case can be formally supported it must be robustly constructed and should not be significantly detrimental to the interests of any authority being asked to participate.

Organisational Review

50. The Council, as an organisation, has not made substantial changes to its structure for many years. With changes in funding structures and responsibilities the whole public sector is at a crossroads. An opportunity has arisen with the appointment of a new Chief Executive for a fresh review of the organisation. Over the next year it will be important to ensure that structures and staffing are appropriate to deliver the vision of Members and serve the community.

51. At the moment the MTFS has not been adjusted for any changes to the organisation as these cannot easily be anticipated. However, it is likely that any changes will have implications for both the CSB and DDF.

District Development Fund

52. The carry forward of £446,000 represents a decrease of £16,000 on the £462,000 of slippage for 2010/11. 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.

53. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is estimated that there will be some £1.091m of DDF available at 1 April 2017.

The Capital Programme

54. Council house sales remained in single digits for the fourth year in a row, although the values did slightly exceed the amounts allowed for in the revised estimates. The Government has attempted to boost right to buy sales by increasing the discount that tenants can receive. This has increased the number of enquiries from tenants but it remains to be seen how many of these enquiries will ultimately result in sales. There has been only one completion so far in the first four months of 2012/13. The Capital Programme has not been adjusted to anticipate any increase in the level of Council house sales.

55. 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.

56. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 25 June 2012 highlighted that the underspend of £2.766m was higher than the previous years figure of £1.49m. Non-housing expenditure was £1.135m below the estimate at £2.993m, whilst housing expenditure of £6.57m was £1.631m below the estimate of £8.201m. The slippage in the programme will be carried forward to subsequent periods.

A Revised Medium Term Financial Strategy

57. 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 £250,000 in 2013/14, increasing to £400,000 for 2014/15 and 2015/16 before reducing to £200,000 for 2016/17. These savings would give total CSB figures for 2012/13 revised of £14.636m and 2013/14 of £14.906m.

58. This proposal sets DDF expenditure at £1.539m for the revised 2012/13 and £560,000 for 2013/14, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

59. 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 £15.842m at 1 April 2012 to £7.894m at 1 April 2017.

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

The Council Tax

61. The Government provided incentives for authorities to freeze the Council Tax in both 2011/12 and 2012/13, although it appears no similar scheme will be put in place for 2013/14. Members still have an ambition to be the district with the lowest Council Tax in Essex and in line with this ambition and a desire to restrict the burden on hard pressed tax payers an increase of only 1% has been included for 2013/14. From 2014/15 onwards it is assumed that future increases will not exceed 2.5%.

62. As an alternative, Annexes 1 (c & d) show the effect of a 0% increase in 2013/14. If this strategy is pursued instead of a 2.5% increase the balance on the General Fund Reserve at the end of 2016/17 will be £416,000 lower at £7.323m. However, this would still mean the balance at 31 March 2017 was more than 51% of the Net Budget Requirement for 2016/17.

Conclusion

63. The Council is in a stronger financial position than had been anticipated. This is due to the greater level of savings in 2011/12, savings being negotiated on key contracts and reductions in underspent budgets. However, there are significant uncertainties and challenges ahead. Through the proposals to retain business rates and localise support for council tax 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 rating 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.

64. Whilst not wishing to undermine the MTFS, it must be remembered the proposals to put in place business rates retention and local council tax support are still being consulted on. Against this background and the uncertain economic climate it is difficult to robustly predict forward to the end of 2016/17. During the course of the development of the proposals the amount of business rates retained has reduced from 100% to 50%, the tariff and top-up positions between counties and districts has been reversed, the amount to be top sliced from the control totals in 2013/14 to fund NHB may be as much as £2bn or as little as £500m, there is also the DCLG's evident lack of understanding about taxbases which has necessitated their latest consultation running from 28 August to 9 October.

65. Despite all the uncertainty the Council can look forward with a degree of confidence. At the end of 2012/13 the balance on the general fund reserve is predicted to exceed £9.3m and the balance on the DDF to be just under £2m. This position of financial strength means that whatever the outcomes are of the funding and benefit changes, a measured view can be taken on their implementation.

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.