

Report to the Cabinet



**Epping Forest
District Council**

Report reference: C-018-2019/20

Date of meeting: 31st October 2019

Portfolio: Business Support

Subject: Budget and Medium-Term Financial Strategy

Responsible Officer: Nick Dawe (01992 564000 Ext 2541).

Democratic Services Officer: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

- 1. To note the assumptions being used in formulating the core budget for 2020/21 as indicated in Section 2, with detailed budgets being formulated for Cabinet consideration on the 11th December 2019.**
- 2. To note that only 2% inflation will be added to operational budgets (other than waste and leisure contracts). To note that having raised income and charges by 3% in line with Office of National Statistics estimate of inflation, that the Authority will hold around 1% for specific in-year inflation and economic pressures.**
- 3. To comment on the proposed list of developments shown in Section 3 and further detailed in the appendices, noting that this list includes revenue, capital and loan items.**
- 4. To consider whether any additional or substitute development proposals need to be considered, particularly those that will address economic uncertainty or issues of economic and social exclusion.**
- 5. To note that the companies set up and wholly owned by the Authority are due to generate income and to repay loans from 2020/21 and the significant financial benefit that results from this. To note that from 2021/22 the options available to Cabinet in terms of their development and fiscal (taxation) policies will significantly increase.**
- 6. To note and comment on the intent to further review existing District Development Fund and Capital commitments for final verification of these items by Cabinet on the 11th December 2019**
- 7. To comment on the intent, to stimulate continuous service improvement and the release of funds for developments, that an efficiency savings target of between 0.25% and 0.5% should be set. The figure is comparatively low (compared to other**

Authorities) and a full list of schemes will be put before Cabinet on the 11th December 2019.

8. Having taken account of views on the developments and how these could be funded, to comment on the overall preferences to forming a final budget with or without a council tax increase as summarised in Section 5.

9. To note the outline workplan and issues outlined in Section 6.

10. To note and approve that an opportunity exists to drive forward with several schemes and incur expenditure this year, covering this expenditure by the use of District Development Funds. These projects are:

- The North Weald Masterplan £140,000 (proposal 42)
- Customer Service Notification System £25,000 (proposal 17)
- Planning Approval backlog £40,000 (proposal 28)

1. Executive Summary

The following paper is the second document taken to Cabinet to assist the Administration in forming the budget for 2020/21 and understanding the opportunities and risk in regard to forming the budget.

It is not a decision paper but seeks a further Cabinet steer on both the general assumptions that drive the budget in Section 2 and the specific development proposals set-out in Section 3.

The paper has been put together illustrating two broad budget options that either require a 2.5% increase in council tax or a 0.00% increase in council tax.

2. General Assumptions for Existing Budgets

A standard and formulaic approach has so far been taken in respect of reviewing existing budgets. This formulaic approach has been supported with a full costing of the proposed management and staff structure.

The basic approach taken is as follows:

That inflation pressures on pay and non-pay items are offset by proportionally similar increases in income, charges and rentals.

That cost pressures in individual budgets are funded by reallocating underspent budgets.

The result of this approach is to leave the use of District Development Funds, Efficiency Savings and Council Tax Increases free to fund developments and other investments.

2.1.1 Pay

The basic assumption on pay inflation is that it will rise by up to 3% in-line with Office of National Statistics estimates of inflation next year.

It is intended that 2% of this increase is provided to individual budget lines and that (up to) 1% is assumed spent but is held as a contingency to address issues such as market forces increases (for some) above inflation.

2.1.2 Non-Pay

The basic assumption on non-pay inflation is that it will rise by up to 3% in-line with Office of National Statistics estimates of inflation next year.

It is intended that 2% of this increase is provided to individual budget lines and that (up to) 1% is assumed spent but is held as a contingency to address issues such as market forces increases (for some) above inflation.

Specific calculations will be undertaken for the waste and leisure contracts and of course certain specific headings will attract no inflation at all, e.g. depreciation.

2.1.3 Income, Charges and Rents

The basic assumption on income, charges and rent is that it will rise by up to 3% in-line with Office of National Statistics estimates of inflation next year.

All the increase will be assumed as being received.

Specific calculations will be undertaken for certain rental streams and there are some charges that are set by central government.

2.1.4 Pensions

The basic assumption on pensions is that it will rise by up to 3% in-line with Office of National Statistics estimates of inflation next year. In practice the employment overhead of employers NI and employers' pension has risen from 28% to 29%.

An actuarial review of pensions is currently taking place and further cost implications may result as a result of this review.

A full list of assumptions as attached at appendix 7.1.3

3. Development by Theme

The developments have been grouped in themes to reflect the inter connectivity between proposals. Further details of the proposals are contained within the appendices at 7.1.2.

A thematic consideration of the developments is shown below:

3.1.1 A

Theme	Stronger Place
Brief Description	The implications and outcomes arising from setting up a group of wholly owned companies to develop sites, (including St Johns), provides profitable services (including housing maintenance)
Development Proposal References	10a, 10b, 11a, 11b, 12a, 12b, 12c, 13a, 13b, 13c, 14a, 14b, 45

Issue to consider	<p>Authority should profit from arrangement and use dividend to correctly and appropriately convert sale receipts and social housing build and maintenance activities to generally useable profit.</p> <p>Need to ensure that there is a prudent approach to the payback of loans and the payment across of dividends. Implications to Authority balance sheet and liquidity also need to be understood.</p>
Revenue Impact in 2020/21	NA but set-up costs currently still with Authority
Capital Impact in 2020/21	NA
Loan granted 2020/21	£56,332,050

3.1.2 B

Theme	Stronger Place
Brief Description	Strategic planning for sustainable growth over next ten years, Local Development Plan and North Weald Master Plan and early investment in North Weald
Development Proposal References	1, 42, 43
Issue to consider	Charged to DDF as strategic and non-recurring. Clear and implementable plans that Devco for instance, can refer to. Need to ensure plans are delivered and approved as early as possible in 2020/21
Revenue Impact in 2020/21	£342,500
Capital Impact in 2020/21	£100,000
Loan granted 2020/21	NA

3.1.3 C

Theme	Stronger Council
Brief Description	More effective and efficient services to residents and customers arising from flexible working, IT and appropriate buildings and partnerships
Development Proposal References	6, 7, 35, 53, 8a, 8b
Issue to consider	Ensure proposals deliver operational and performance benefits and reduce cost. Set proposals against alternative options. Ensure opportunity cost of seconding staff to project are fully understood.
Revenue Impact in 2020/21	£283,500
Capital Impact in 2020/21	£6,770,000
Loan granted 2020/21	NA

3.1.4 D

Theme	Stronger Council
Brief Description	Improvements to Housing effectiveness and efficiency through new IT and practices.
Development Proposal References	9a, 9b, 9c, 9d
Issue to consider	Ensure that current budgets off-set costs as much as possible and that increased effectiveness is delivered. Note that system upgrades in future will be funded on an annual basis as a charge rather than through a capital investment
Revenue Impact in 2020/21	£742,000 Housing funding
Capital Impact in 2020/21	NA
Loan granted 2020/21	NA

3.1.5 E

Theme	Stronger Council
Brief Description	Improvement in revenue and benefits and other customer systems encouraging a shift to self-serve and automatic serve.
Development Proposal References	15, 16, 17, 49
Issue to consider	Ensure that current budgets off-set costs as much as possible and that increased effectiveness is delivered. Note that system upgrades in future will be funded on an annual basis as a charge rather than through a capital investment
Revenue Impact in 2020/21	£197,000
Capital Impact in 2020/21	NA
Loan granted 2020/21	NA

3.1.6 F

Theme	Stronger Communities
Brief Description	Long-term commitment to neighbourhood policing replacing DDF funding and allowing for an increase of one officer
Development Proposal References	18
Issue to consider	Return on investment, community cohesion and DDF funding runs out after 2021/22
Revenue Impact in 2020/21	No impact until 2021/22 but approval means long-term commitment can be signalled
Capital Impact in 2020/21	NA
Loan granted 2020/21	NA

3.1.7 G

Theme	Stronger Communities and Stronger Place
Brief Description	Various initiatives to improve services to tenants and ambience and safety of estates
Development Proposal References	19, 20, 41 new, 44 new, 46 new
Issue to consider	A value improvement that can be set off against circa 3% rental rise and generally improves place and value of council house assets
Revenue Impact in 2020/21	£69,000 Housing funding
Capital Impact in 2020/21	£140,000 Housing funding
Loan granted 2020/21	NA

3.1.8 H

Theme	Stronger Place
Brief Description	Several schemes to improve planning performance and improve delivery, funded from planning performance agreement income
Development Proposal References	21, 22, 23, 25, 26, 27,47, 48, 49
Issue to consider	Need to ensure that planning performance income not only finds these initiatives but other planning initiatives as £94,000 credit is currently shown.
Revenue Impact in 2020/21	-£94,000
Capital Impact in 2020/21	NA
Loan granted 2020/21	NA

3.1.9 I

Theme	Stronger Communities and Stronger Place
Brief Description	A variety of initiatives to improve security and vouch resources to attract National Lottery funding for museum and cultural developments
Development Proposal References	29, 30
Issue to consider	Match funding provided to museum imitative
Revenue Impact in 2020/21	£23,000
Capital Impact in 2020/21	£300,000
Loan granted 2020/21	NA

3.1.10 J

Theme	Stronger Place
Brief Description	A variety of initiatives to improve local highways and street scenes including a review of car parks
Development Proposal References	32a, 32b, 34, 40
Issue to consider	Initiatives also include transfer of resources from Essex CC and increased obligations to parishes. Governance around business and service arrangements needs to be finalised
Revenue Impact in 2020/21	£40,500
Capital Impact in 2020/21	£140,000
Loan granted 2020/21	NA

3.1.11 K

Theme	Stronger Place
Brief Description	A variety of initiatives to improve technical services such as water quality monitoring, trade waste and bridge review and possible replacement
Development Proposal References	33, 36, 51,52
Issue to consider	Ensuring value for money of services provided.
Revenue Impact in 2020/21	£74,500
Capital Impact in 2020/21	£40,000
Loan granted 2020/21	NA

3.1.12 L

Theme	Stronger Place
Brief Description	Ongar Leisure Centre future (in the context of St Johns and imminent need for major investment)
Development Proposal References	37
Issue to consider	Impact of proposal on other leisure centre investments or proposed investments
Revenue Impact in 2020/21	£50,000
Capital Impact in 2020/21	Up to £8m in future years
Loan granted 2020/21	NA

3.1.13 M

Theme	Stronger Place
Brief Description	Replacement of fleet improving environmental impact and delivering financial efficiency
Development Proposal References	38, 39, 50
Issue to consider	Rental versus lease of fleet, vehicle acquisition and provision potentially being a Servco function
Revenue Impact in 2020/21	£55,000
Capital Impact in 2020/21	£685,000
Loan granted 2020/21	NA

4. Funding of Developments

4.1.1 District Development Fund

The District Development Fund has historically been used for non-recurring investments and to pump prime other major changes. It is only envisaged that the continuation and completion of the Local Development Plan will be a call against the DDF resources. As a result, the transfer of resources to top up the DDF is also limited.

4.1.2 Efficiency Savings

The vast majority of services together with the budget that support them, is only adjusted for inflation. In-line with good business practice, it is proposed that the effectiveness and efficiency of services should get better as a result of a programme of continuous improvement and attainment of an upper quartile position in terms of performance and cost-effective delivery.

It is relatively common to set this efficiency target at 3%, however due to the recent review of establishments and delivery of savings this year, it is suggested that a Directorate wide savings target of either 0.25% or 0.50% is set. **Action: Directors to formulate (new) savings proposals for early implementation in 2020/21 by the end of November 2019.**

4.1.3 Council Tax Increases

Locally raised taxes support approximately 25% of the total spend of the Authority. An annual increase in Council tax of 2.5% was included in last year's medium-term financial strategy.

In view of the scarcity and importance of the Council tax increase two options have been prepared that will fund all the high priority developments in total.

Option A: is based on a council tax increase of 2.5% and a savings target of 0.25%.

Option B: is based on keeping council tax rates as now with a commensurate increase in the savings target to 0.5%.

Council tax increases need not only to be considered in terms of the delivery of extra funding but also in terms of setting the council tax base for future years, the current comparative

level of tax, the priority given to developments which any increase funds and issues of affordability and the value of services delivered to the local community.

In addition, the Authority holds a non-recurring amount of £500,000 less £50,000 as a non-recurrent ex-gratia payment from HMRC. To date this has not been assumed as being available in the budget and is nominally associated with environmental and other similar works at the North Weal Airfield site.

5. Summary Budget Options

The detail of the development options is set out previously and in the individual submissions shown at Appendix 7.1.2. Although it is appreciated that not all proposals may be accepted and that savings requirements and council tax increases may vary, the following two budget proposals have been illustrated:

It should be noted that the cost of borrowing and depreciation impacts have been modelled but require validation.

The granting of an extra £56m of loans, mainly secured against property assets will result in the balance sheet of this Authority continuing to be considered as strong.

5.1.1 Option A 2020/21, 2.5% Council Tax Increase

Value of revenue developments (net)	£726,080
Funded by	
Use of DDF	£340,000
Replenishment of DDF Fund (negative number)	-£103,920
Savings at 0.25%	£265,000
Council tax increase of 2.5%	£225,000
Will also deliver capital schemes with a value of	£8,320,000
Will also allow new loans to be issues with a value of	£56,032,050

5.1.2 Option B, 2020/21, No Council Tax Increase

Value of revenue developments (net)	£726,080
Funded by	
Use of DDF	£340,000
Replenishment of DDF Fund (negative number)	-£143,920
Savings at 0.50%	£530,000
Council tax increase of 0.00%	£0
Will also deliver capital schemes with a value of	£8,320,000
Will also allow new loans to be issues with a value of	£56,032,050

6. Next Steps

6.1.1 Delivering 2019/20

Directors and managers are intending to deliver at the end of March 2020, budget balance.

The delivery of this budget balance is dependent on two key actions:

Ensure the delivery of the planned savings programme. This will require additional specific decisions and actions and Directors may have to find substitute schemes if proposed schemes are unworkable. **Action: Directors need to confirm delivery of the savings programme by the end of November 2019.**

Ensure the management and staff changes are delivered to budget. The current staff consultation together with the previous management re-structuring are designed both to improve delivery and efficiency. It is important that this progress is made and that the costs any super-numerary staff are off-set by savings from vacancies. There needs to be no super-numerary staff no later than the 31st March 2020. **Action: Directors to deliver staff review and ensure all assimilation and interview requirements are completed by 31st December 2019.**

Progress with these three areas of action is important and progress will be reported monthly.

6.1.2 Finishing Detailed Budget Reviews

Meetings with Directors and Managers have already been held and key issues have been identified and some resolved. Second meetings are timetabled to take place in the first two weeks of November to resolve outstanding budget review actions. **Action: Directors by 15th November 2019.**

6.1.3 Review of Charges and Rents

The process of reviewing charges and rents has commenced. It is critical that this work is completed to allow the total budget, in draft, can return for consideration by Cabinet in December. **Action: Directors to complete charging and rental reviews by 30th November 2019.**

6.1.4 Reviewing Existing District Development Fund Commitments

It is proposed to review all future District Development Fund proposals to ensure that the priority given to these developments remains, outcomes will be delivered, and funding will be fully and appropriately used. A schedule of valid new and existing DDF schemes will be brought forward for Cabinet consideration. **Action Directors by 20th November 2019**

6.1.5 Reviewing Existing Capital Commitments

It is proposed to review all future capital proposals to ensure that the priority given to these developments remains, outcomes will be delivered, and funding will be fully and appropriately used. A schedule of valid new and existing capital schemes will be brought forward for Cabinet consideration. **Action Directors by 20th November 2019**

6.1.6 Finalising the Draft Budget and Medium-Term Financial Plans

It is planned to bring a full draft budget and medium-term financial plan to Cabinet on the 11th December. Some minor alterations may be required after this date due to (late) grant announcements and final pension figures. These changes should be accommodated within the overall budget agreed in December. **Action: Section 151 Officer to bring forward draft budget and medium-term financial plan to Cabinet on the 11th December 2019.**

7. Appendices

7.1.1 Summary of all development

This is a large spreadsheet and should act as an index to the individual development proposals.

7.1.2 Individual developments, theme ordered A-....., numbers 1-52

Noting that these summary statements are work in progress and need further refinement before final consideration.

7.1.3 Summary Budget Assumptions

A summary of all underlying assumptions used when reviewing budgets.