EPPING FOREST DISTRICT COUNCIL
COMMITTEE MINUTES

Committee:	Finance and Performance Management Cabinet Committee	**Date:**	Thursday, 26 July 2018
Place:	Council Chamber, Civic Offices, High Street, Epping	**Time:**	7.00 - 7.37 pm

Members Present: Councillors G Mohindra (Chairman), A Lion, J Philip, S Stavrou and C Whitbread

Other Councillors:

Officers Present: P Maddock (Assistant Director (Accountancy)), R Perrin (Senior Democratic Services Officer), A Rose (Marketing & Digital Content Officer) and D Bailey (Head of Transformation)

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13. Webcasting Introduction

The Chairman reminded everyone present that the meeting would be broadcast live to the Internet and that the Council had adopted a protocol for the webcasting of its meetings.

14. Substitute Members

The Cabinet Committee noted that there were no substitute members for this meeting.

15. Declarations of Interest

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

16. Minutes

RESOLVED:

That the minutes held on 21 June 2018 be taken as read and signed by the Chairman as a correct record.

17. Any Other Business

That, as agreed by the Chairman of the Cabinet Committee and in accordance with Section 100B(4)(b) of the Local Government Act 1972, the following items of urgent business be considered following the publication of the agenda:

- Annual Governance Report; and
- Financial issues Paper.

18. Annual Governance Report

The Assistant Director (Accountancy) presented a report regarding the Annual Governance Report. The International Standard on Auditing 260 required the

External Auditor to report to those charged with governance on certain matters before they gave an opinion on the Statutory Statements of Accounts. The audit of the Council's Statutory Statement of Accounts for 2017/18 would be presented to the Audit and Governance Committee on 30 July 2018.

The audit report highlighted the key findings of the financial statements of the Council for the year ending 31 March 2018, and had only been received today as the audit was still ongoing and had been tabled for information.

The Assistant Director (Accountancy) advised the Cabinet Committee that the key findings were;

(a) That no additional significant audit risks had been identified during the course of the external audit procedures subsequent to the Audit Plan on 19 January 2018;

(b) That the final materiality was £2,000,000, which had not required reassessment;

(c) That there were no significant changes to the planned audit approach nor were any restrictions placed on the audit;

(d) That the audit identified the following material misstatements:

- Upon transfer of the Langston Road Retail Park from Assets Under Construction to Investment Properties, the Revaluation Reserve balance was not removed via the Capital Adjustment Account. The revaluation reserve was therefore overstated by £6.503 million and this had been adjusted in the revised financial statements;

- The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission had not yet been granted on the site and therefore the site should have been classified as a surplus asset within non-current assets. Surplus assets were consequently understated by £6.139m and this had been adjusted in the revised financial statements; and

- The Essex Pension Fund actuary reissued its IAS19 actuarial valuation report in June 2018 following publication of the Council's draft financial statements as there had been a significant movement in the estimate used in the actuarial calculation and the actual fund value at the year end of £111 million. The impact for the Council was that the pension scheme liability had increased by £2.859 million to £74.860 million and this had been adjusted in the revised financial statements.

(e) That there had been no unadjusted audit differences;

(f) That the audit identified no significant deficiencies in internal controls;

(g) That following the receipt of the draft accounts, the Pension Actuary had issued an updated IAS19 report and the audit was in progress;

(h) That a number of presentational changes had been made to the draft financial statements as a result of the audit;

(i) That management reported at the end of the year a General Fund balance of £6.7 million, which was an improved position compared to the opening balance of £0.5 million predominantly due to a change in accounting treatment. Management were planning for reserves to be 37% of the Council's net funding requirement by 2021/22 with the minimum requirement being set by Members at 25%;

(j) That the Council had healthy levels of reserves when compared to the minimum requirement and a strong asset base. The impact of the Transformation Programme and the commercial strategy the Council had adopted on its finances were appropriate to continue to deliver the strategies;

(k) That subject to the successful resolution of outstanding matters, it had been anticipated that a unmodified opinion on the financial statements for the year ended 31 March 2018 would be issued;

(l) That there were no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements; and

(m) The Council was below the audit threshold for a full assurance review of the Whole Government Accounts return and no other powers or duties under the Local Audit and Accountability Act 2014 had been exercised.

Resolved:

That the External Auditor's Annual Governance Report be noted.

Reason for Decision:

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

Other Options Considered and Rejected:

The report was for noting, no specific actions were proposed.

19. Financial issues Paper

The Assistant Director (Accountancy) advised that the report provided a framework for the Budget 2019/20 and updated Members on a number of financial issues that would affect the Authority in the short to medium term.

He advised that following the General Election on 8 June 2017, a formal date had now been set for leaving the EU on 29 March 2019; the economy had endured low interest rates for nearly a decade with further rate increases yet to materialize; the Consumer Prices Index (CPI) had fallen to 2.3%; and firmly remained within the tolerance set by Government. It was hoped that the Autumn budget would provide more clarity on the two big issues of the Fair Funding Review and Business Rates Retention and it was unlikely that any improvement in District Council funding would be seen in the near future.

The Assistant Director (Accountancy) advised that the following issues represented the greatest areas of current financial uncertainty and risk to the Authority;

Central Government Funding – The Settlement Funding Assessment (SFA) had reduced over the four year period by £2.48m or over 45%. Consequently, resulting in a negative Revenue Support Grant of £0.28 million in 2019/20 and an additional tariff to be paid to Central Government. Currently no information had been provided on the settlement for 2019/20, although the Fair Funding Review (FFR) would affect allocations and distributions between local authorities from 2020/21 onwards. It had been assumed that the FFR would affect New Homes Bonus, Housing Benefit Admin grant and how Business Rates retention was going to evolve over the next few years.

The Council had increased Council Tax in 2018/19 by 2.48% to provide for additional policing for three years and the MTFS had assumed that the police contribution would cease after the three years with Council tax reverting to its former level. The Local Council Tax Support (LCTS) funding would also be phased out by 2019/20.

Business Rates Retention - There was very little growth anticipated after 2017/18 despite the building of the retail park and other known likely developments within the district with particular caution required over the estimates for 2017/18 and beyond. The new rating list was being used and there was still no data available. The complexity around the introduction of the new list had been made worse by changes to transitional relief and the appeals system; however there were still around 100 outstanding appeals from the previous list including the one property in the south of the district which had a rateable value approaching £6 million. The total provision against appeals was currently £3.39m.

This time last year the Government announced 100% local retention of business rates which has since been amended to 75% with a view for implementation in 2020/21. In addition, a proposal within the FFR formula suggested that the average Council Tax be used to calculate the assumed amount a Council could raise from the Council Tax and that the Council Tax be set in line with the average for the Country, which was much higher. Lastly, the Council remained within the business rates pool for 2018/19.

Welfare Reform - Overall the Local Council Tax Support (LCTS) had been successful in collecting some Council Tax from most of the people receiving support. The Universal Credit (UC) had been progressing slowly with different parts of the district moving over to UC at different times. Originally bed and breakfast accommodation had been included in UC but the DWP made the decision to remove this. Clarity over the time period and process for the migration of the existing housing benefit claims to UC and the role local authorities would perform under the new system were still awaited. The grant paid to local authorities to administer housing benefit would also see a further reduction of £29,000 for 2018/19.

New Homes Bonus - During 2017/18 significant changes were made to the way New Homes Bonus (NHB) was allocated and the reductions in grant were far greater than had been anticipated. In 2018/19 it had dropped to £849,000, a fall of over £1,100,000 and estimates in 2019/20 and 2020/21 were £700,000 and £200,000 respectively, so in a relatively short period of time the income source had been removed almost entirely. However, given the significant number of properties due to be constructed in the district set out in the Local Plan, it could be reasonable to assume that NHB would increase again.

Development Opportunities - The retail park was now operational with only one unit still under negotiation and once all units were operating, the income from leases should be over £2,500,000. The MTFS still showed a more prudent view to allow for any shortfall, management costs and interest. It was anticipated that the St Johns development agreement would be concluded within the next couple of weeks and that the capital receipt would be available to the Council around May 2019. The former Winston Churchill pub site was progressing well and the majority of the units were under offer or in negotiation with the MTFS assuming income of £350,000.

There had been a small overspend on the General Fund capital programme, but the programme had been funded without any additional borrowing. However, going forward any significant additional capital expenditure either HRA or General Fund would no longer be freely available and borrowing costs would need to be considered as part of any option appraisal.

Transformation - The front Council Offices had now been listed by Historic England, which had put the accommodation review back. Discussions were being held with Historic England to establish what could be achieved in order not to breach the listing conditions and free up the Conder Building and rear extension part of the site for redevelopment. The remaining unallocated monies within the Invest to Save reserve had been allocated to the accommodation review. The People and ICT Strategy were both now underway with one of the two Strategic Director being recruited and the structure and interviews commencing for Service Director Level. The Business Support team had brought together other parts of the Council in order to provide a comprehensive council wide support and admin unit that would reduce duplication and increase efficiency.

Waste and Leisure Contracts - The Waste and Street Cleaning service had been procured at a lower cost with the savings being included in the MTFS. However, since then there had been further increases relating to loss of recycling income and in June 2018, the requirement of additional funding to meet the issues relating to the Chinese recycling market. These costs were not sustainable in the long term and various options were being discussed with Biffa at the Waste Management Partnership Board, to examine how overall costs could be reduced in future years. The current Leisure Management contract started on 1 April 2017 with Places for People for a period of 20 years. Over the lifetime of the contract the average CSB savings would be more than £1,000,000 per year and given the length and value of the contract.

Miscellaneous – It was noted that Members should be advised of the potential recession and there had been a period of slow growth and inflation. Consequently, any property related income streams such as development control and rent from commercial estate could suffer and be magnified as the proportion of the income coming from retained business rates increased. The Council's single largest cost was the annual pay bill of around £24m, with the pay award for 2018/19 averaging out at around 2.3%, 2.5% in 2019/20, 2% in 2020/21 and 1% in 2021/22.

The Cabinet Committee noted that the Council remained in a strong financial position and had substantial reserves during a period of uncertainty and higher level of financial risk. There was particular uncertainty around the financing situation for 2020/21 and beyond.

Recommended:

1. That the establishment of a new budgetary framework including the setting of budget guidelines for 2019/20 be set including;

(a) The ceiling for Continuing Services Budget expenditure be no more than £12.689 million including net growth;
(b) The ceiling for District Development Fund expenditure be no more than £553,000;
(c) That balances continue to be aligned to the Council's net budget requirement and that balances be allowed to fall no lower than 25% of the net budget requirement; and
(d) The District Council Tax not be increased, with Council tax for a Band 'D'

property remaining at £152.46.

2. That the revised Medium Term Financial Strategy for the period to 2021/22 be developed accordingly;

3. That the Medium Term Financial Strategy be communicated to staff, partners and other stakeholders;

4. That the parish support grants be implemented in equal stages to achieve complete removal by 2019/20.

Reasons for Decision:

By setting out clear guidelines at this stage the Committee established 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 had been carefully considered.

Other options Considered and Rejected:

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, were necessary in relation to a particular risk. However, any delay would reduce the time available to produce strategies that comply with the guidelines.

CHAIRMAN