

REPORT TO: CABINET

DATE: 29 JANUARY 2015

TITLE: GENERAL FUND REVENUE BUDGET 2015/16

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM (01279 446099)
SIMON FREEMAN, HEAD OF FINANCE (01279 446228)

This is a Key Decision

It is on the Forward Plan as Decision Number I002669

This decision is not subject to Call-in procedures for the following reason:-

The decision is a recommendation to Full Council

This decision will affect no Ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that:

- A** The General Fund estimates for 2015/16 as set out in Appendix A are approved.
- B** The proposed transfers between the General Fund and Earmarked Reserves, set out in paragraphs 16 to 22 of this report, are approved.
- C** The proposed Fees and Charges as set out in Appendix C are approved.
- D** The Pay Policy Statement as set out in Appendix G is approved.
- E** The Council's Band D Council Tax for 2015/16 be set at £263.02, which represents a 1.5% increase compared to the Band D Council Tax for 2014/15, subject to final Government announcements relating to capping expected in early February.

REASON FOR DECISION

The Council must approve an annual budget and recommend a Council Tax charge for the forthcoming year under Government guidelines and current legislation.

BACKGROUND

- 1 The 2015/16 General Fund Budget has again been prepared against a background of significant cuts in the level of Government grant. At the same time, the wider economy continues to witness the on-going effects of the global recession. The Council's finances continue to be affected by major movements in uncontrollable costs such as price inflation, statutory pension contributions and the impact of external factors, as well as on-going challenges to meet income targets across a range of services.

GOVERNMENT GRANT

- 2 The Government announced the provisional figures for Formula Grant in the draft Local Government Finance Settlement released on 18 December 2014. This year's settlement covers only one financial year, 2015/16. The Council's main Government grant funding to support General Fund services will have reduced by over 65% in the period 2011/12 to 2015/16. The latest draft figures released indicate that the Council faces reductions of 16.6% in Government support in 2015/16. The Medium Term Financial Strategy (MTFS) (elsewhere on the Cabinet agenda) deals with these funding changes and Business Rate Retention.

PROPOSED ORIGINAL GENERAL FUND ESTIMATE 2015/16

- 3 The downturn in the economy and the on-going effect on the Council's finances, together with the impact of the draft grant settlement referred to above, have been reflected in the Council's latest Medium Term Financial Strategy covering the period 2015/16 to 2019/20 and in the General Fund Budget for 2015/16.
- 4 The Medium Term Financial Strategy sets out a projection of General Fund expenditure over the five-year period 2015/16 to 2019/20, assuming a 1.5% increase in the level of Council Tax in 2015/16 and 1.5% increase per annum thereafter. The MTFS projection reported to Cabinet in January 2014 identified a budget savings target for 2015/16 of £1,335,000. However, as a result of the changes in the grant settlement and other identified budget changes the gap has changed to £1,264,000.
- 5 Following the Chancellor's Autumn Statement which announced continued deep cuts in future years' public sector expenditure, achieving the required savings target, whilst protecting as far as possible service provision, has once again been extremely challenging. Officers have worked closely with the Administration to produce a balanced budget proposal for 2015/16 with all savings identified detailed within this report at Appendices B1 and B2. Given the long-term commitment to achieving efficiencies and the ongoing and significant funding reductions being imposed on local government, the delivery of further savings whilst protecting services is becoming extremely

difficult. The MTFS report identifies this as a key issue and risk for the Council in future years and also highlights that, whilst financing of the budget becomes even tighter, decisions on the provision of services are becoming increasingly difficult.

- 6 The table set out at Appendix A shows a summary of the Administration's proposed budget for 2015/16, together with the budget for the current year approved in February 2014. The summary shows the budgets for each service together with other key estimate headings and contribution requirements to and from reserves.
- 7 The main changes in the proposed 2015/16 Budget compared with assumptions in the February 2014 MTFS are shown in Table 1.

TABLE 1 - Changes in 2015/16 Budget Compared with Assumptions in MTFS
(as originally approved in Jan 2014)

	£000s	£000s
Original MTFS Savings Target (Cabinet January 2014)		1,335
Decrease/ (Increase) in Grants		
Further Reduction in Revenue Support Grant		6
Council Tax Setting Changes		
Adjust from Council Tax Base		5
Council Tax Collection Fund Deficit		9
Business Rates Collection Fund Deficit		204
Identified Budget Pressures		
Street Lighting (Keeping the lights on)	100	
Employer's Pension Contributions	34	
Contact Harlow	21	
Building Cleaning	41	
		196
Other Changes		
County Sharing Agreement	(120)	
Increase Bad Debt Provision	195	
Housing Benefits/ Council Tax administration subsidy	(111)	
Housing Benefit - Overpayment Recovery	(70)	
Interest Costs	(77)	
MRP Reduced provision	(115)	
Reduced Inflation provision	(195)	
Other	2	
		(491)
Total Revised Savings Target		1,264
Financed By:-		
Efficiency Savings (Appendix B1)	537	
Income/ Recharges (Appendix B2)	727	
Total Financing		1,264

PROVISION FOR PAY AWARDS & INFLATION

- 8 Provision is built into the 2015/16 budget for additional expenditure as a result of the national pay settlement providing for a 2.2% pay award effective from January

2015 through to March 2016 including the non-contractual one off payments to be made in April 2015. Contractual inflation has also been incorporated into the figures contained within the 2015/16 budget set out in this report.

- 9 Provision has been included in individual budgets for anticipated price changes in business rates, energy costs and external contracts, such as the Joint Venture Agreement with Kier Harlow Ltd and the waste contract with Veolia Ltd. In accordance with normal practice, supplies and services budgets have not, in general, been increased to allow for inflationary increases in costs, as managers are required to meet these increases within their existing budgets where it is possible to do so as the Council continues to deliver ongoing efficiencies in the way it conducts its day-to-day business.

Cuts in Formula Funding

- 10 As previously identified the Government reductions in the grant it provides to the Council under the Formula Funding arrangements have been reduced by over 16.6% for 2015/16. The original MTFS assumptions in February 2014 projected a reduction of 16.4%. The adjustment of £6,000 contained in Table 1 reflects the financial impacts of the changes compared with the provisional announcement made in February 2014.

Tax Base and Collection Fund

- 11 Regulations require the Council to estimate both its tax base (the number of Band D equivalent properties that will attract a Council Tax charge) and the level of surplus or deficit on the Collection Fund (the account administered by the Council through which all Council Tax, Business Rates and Precept payments flow). These calculations have become more complex since 2013/14 as a result of the changes imposed by government in Business Rates Retention and the localisation of Council Tax Benefits Schemes. Work undertaken to assess the budget impacts has resulted in an increase to the original MTFS projected budget gap of £218,000 (£5,000 for tax base changes plus £9,000 as a result of a declared 2013/14 Council Tax Collection Fund deficit and £204,000 for the Business Rates Collection Fund Deficit); further details are provided later in the report. The tax base, for the purpose of computing the average Band D Council Tax in 2015/16, equates to 24,285.51 equivalent Band D properties.

Council Tax

- 12 The MTFP presented to Full Council in February 2014 included an assumption that Council Tax increases for 2015/16 and future years would be at 1.5%. The proposed budget now includes a 1.5% Council Tax increase and has been proposed to support priority-led initiatives and specifically street lighting in 2015/16.

Income

- 13 The MTFS has in previous years identified that the Council has experienced

difficulties achieving its income targets included within the Council's base budget. Key drivers for this have been in relation to car parking income with previous cuts being made to the income targets to this service area. As part of the 2015/16 budget setting process income has been reviewed and the income budgets for next year will be increased in line with the agreed increases to fees and charges set out in Appendix C to this report.

Pension Contributions

- 14 Auto enrolment changes were reported as part of the 2014/15 budget setting process and are built in to the Council's employee budgets in 2015/16. Under the Local Government Pension Scheme requirements, the Essex pension fund is re-valued every 3 years to ensure that the contributions and other income generated is sufficient to meet the liabilities of the fund. The Essex fund was subject to revaluation during 2013 and the results of that work have been incorporated into the MTFP with additional costs of £168,000 planned in 2015/16 as a result of the increase in Employers pension contribution rates from 12.3% to 14.6%. This has been offset by a £130,000 saving resulting from the decision to pay the annual pension contributions in advance each April instead of on a monthly basis and results in the net pressure of £34,000 reflected in the table above.

Local Council Tax Support Scheme

- 15 The national changes to Council Tax Benefit and the devolvement of the scheme from the Government to Councils has previously been reported to Cabinet and the new local scheme for 2014/15 was approved by Full Council on 19 December 2013. Government grant was only provided and identifiable in 2013/14. The Council has agreed to leave the scheme unchanged for 2014/15 and 2015/16 but equally has not reduced the level of funding earmarked to support it despite the reductions in formula grant in 2014/15 and 2015/16.

Discretionary Services Fund

- 16 The Discretionary Services Fund holds funding to help support the transition of discretionary services as a result of previous Council budget decisions. Additionally the 2015/16 budget proposals include further use of the fund to finance existing services from April 2015. These services will place a higher demand on the fund balance as a result of their transfer, resulting in depletion of the fund by 2018/19.
- 17 Meanwhile, investment in economic regeneration across Harlow is regarded as a high priority in attracting business and development to develop local employment opportunities and improve the Town's infrastructure. In support of forthcoming investment initiatives, it is proposed that £1,000,000 be released by the Discretionary Services Fund for transfer into the Regeneration and Enterprise Reserve in 2015/16.

NEW HOMES BONUS

- 18 The New Homes Bonus was first introduced in 2011/12 and was treated as a windfall item in the 2011/12 budget setting process. The Government has confirmed that the grant will continue into future years and has an accumulating effect for the first six years of the grant system. As a result of this announcement a sum of £983,000 is due to be paid to Harlow in 2015/16, £787,000 of which is to be contributed to the Discretionary Services Fund and £196,000 will be contributed to the Regeneration and Enterprise Reserve.
- 19 It is proposed that this sum contributed to the Regeneration and Enterprise Reserve will be utilised to finance a stock condition survey of General Fund assets in order to identify ways of maximising their usage and value to services.

GENERAL RESERVES

- 20 The position with regard to the Council's uncommitted General Reserves is set out in Table 2. The table shows the planned one-off use of reserves in the original budget for the current year, together with in-year changes arising from consideration of the 2013/14 Final Accounts report in July 2014. The forecast has also been updated for latest budget monitoring forecasts as reported to Cabinet in December 2014.

TABLE 2 of GF Budget Report
General Reserves

	£millions
Uncommitted General Fund Reserve as at 1 April 2014	4.753
Carry-forward and Reserve Movements per Council/ Cabinet approvals:-	
- Budget carry-forwards from 2013/14 (approved Cabinet July 2014)	(0.255)
- Transfer to Discretionary Services Fund (approved Council September 2014)	(1.985)
- Transfer to EZ Grant Reserve (Recommended by Cabinet December 2014)	(0.244)
Forecast Budget Variations in 2014/15	0.346
Projected Year-end Balance 31 March 2014	2.615

- 21 The Local Government Act 2003, section 25 (1) (b) requires that the Chief Financial Officer reports to the Council on the adequacy of reserves when the Budget and Council Tax are set. It is important to distinguish between

committed or earmarked reserves and general or uncommitted reserves. A statement by the Council's Head of Finance is attached as Appendix D. It recommends that the minimum level of uncommitted reserves be set at £2,500,000 to reflect adequate provision to meet the known or anticipated future risks. The General Fund balance (i.e. the uncommitted reserves) as at 31 March 2015 is currently projected at £2,615,000, and therefore above the recommended minimum level.

Earmarked Reserves

- 22 The Council holds a number of earmarked reserves and, as detailed in this report, one of the reserves, the Discretionary Services Fund, will be increasingly important in the sustained delivery of services during the pursuit of identified services for transfer to other organisations. It will also provide financial support to services such as the Playhouse, providing further time to consider options for their future delivery. Appendix E lists the Council's earmarked reserves, and provides a schedule of the indicative proposed movements into and out of the various reserves. In addition, a further transfer is proposed from the Discretionary Services Fund as outlined in paragraph 17.

Prudential Code and Borrowing

- 23 The Council may decide to borrow to fund its capital programme. However, this must be done in compliance with the Prudential Code of Borrowing published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Borrowing must be affordable on the basis of the impact of the cost of borrowing on the Council's revenue budgets and Council Tax. Further detail is contained in the separate report on the Council's Treasury Management Strategy included elsewhere on the Cabinet agenda.
- 24 There is a separate report to this meeting on the Housing and Non-Housing Capital Programmes. Due to the continuing economic downturn which impacts on the value and timing of receipts from asset disposals and the reduced numbers of assets available for disposal, the MTFS makes provision for a Minimum Revenue Provision as a mechanism for the repayment of borrowing within the General Fund Budget. Provision has also been made to ensure that the requirements to make a Minimum Revenue Provision against capital borrowing is sufficient and details of the MRP requirement have previously been reported as part of the Treasury Management reports to Cabinet.

Council Tax

- 25 The proposed General Fund Budget will result in an increase of 1.5% in Harlow's element of the Council Tax for 2015/16. This includes the impact of the Collection Fund balance.
- 26 As part of setting the Council Tax for 2015/16 the estimated balance on the Collection Fund at 31 March 2015 has to be taken into account. Under

Government regulations this had to be estimated by the Council's Head of Finance on 15 January 2015 and notified to the precepting bodies accordingly (precepting bodies are those for which Harlow Council, as the billing authority, collects Council Tax and Business Rates). As a result of the local government finance reform introduced in 2013/14, the Collection Fund balance is separated into two elements: one for Council Tax, the second for Business Rates. Each of the precepting bodies receives an allocation of surpluses and losses on different bases, and the DCLG carries a part of the element of losses attributable to Business Rates. For this reason, the distribution of a surplus or loss between each of the precepting bodies may appear inconsistent.

- 27 The balance on the Collection Fund is based on a number of factors as follows: –
- a) The level of bad debt provision.
 - b) The number of properties being liable for Council Tax and associated exemptions and discounts.
 - c) The number of businesses being liable for Business Rates (this may vary extensively in the event of businesses developing or closing).
 - d) Any adjustment required to the balance on the Collection Fund since the previous financial year.
- 28 Taking all of these factors into account, the overall position has resulted in a projected deficit for Council Tax of £53,000 and a deficit on Business Rates of £1,327,546 as at 31 March 2015. The Council Tax surplus is shared in accordance with the regulations with all precepting bodies whilst the allocation of the deficit on Business Rates is allocated in accordance with the proportional shares set out in the Local Government Finance Acts 1988 and 2012. Table 3 shows this allocation:

TABLE 3

Allocation of Projected Collection Fund Balance in 2014/15	Total £000s	Harlow DC £000s	Essex CC £000s	PCC for Essex £000s	Essex Fire Authority £000s	Government £000s
Council Tax	53,000	8,680	37,120	4,930	2,270	
Business Rates After Safety Net Adjustment	1,327,546	204,300	119,479		13,276	990,491
Adjustments	0	0				
Total Deficit / (Surplus) to be allocated	1,380,546	212,980	156,599	4,930	15,546	990,491

As will be noted from the table, Harlow District Council's share of the projected Council Tax deficit is £8,680 equivalent to a Council Tax charge of £0.36 at band D. This compares to a £125,690 surplus for the previous

year, equivalent to £5.17 for a Band D property. However, under the new Business Rates Retention Scheme Harlow Council also bears the benefits and/or losses arising from variations in the business rates collected each year. Previously this variation was a risk to the Government and the National Non Domestic Rates pool. In 2014/15 the income from business rates has dropped significantly, as predicted at the time of submitting the Council's NDR1 return to Government in January 2014. This has resulted in a forecast deficit of £1,327,546 after allowing for the provision made in 2013/14 for outstanding rating appeals. Taking the proportional shares calculation into account Harlow would be required to meet £620,000 of this shortfall but is protected for any losses above £204,000 by the Government's Safety Net arrangements. The loss on business rates collection is equivalent to a Council Tax Charge of £8.41 per Band D property. Combining the overall impact on the Collection Fund of Council Tax and Business Rates has resulted in a net deficit of £212,980 for Harlow or a charge of £8.77 per Band D property.

- 29 A meeting of Full Council is scheduled for 5 February 2015 to approve the Council's element of the Council Tax for 2015/16. The final level of Council Tax will depend on decisions by Essex County Council, the Police and Crime Commissioner for Essex and Essex Fire Authority. The Police and Crime Commissioner for Essex and County Council are not due to meet to set their elements of the Council Tax until dates later in February (to be announced by each of the respective authorities). Indicative figures for each Council are summarised in Table 4, but remain to be confirmed.

TABLE 4 – Composition of Council Tax charge per average Band D property for each authority

	2014/15 Band D Council Tax	2014/15 Band D Council Tax	Annual Increase	Increase %
	£	£	£	
Harlow DC	259.13	263.02	3.89	1.50
Essex County Council	1,086.75	tbc	tbc	tbc
Essex Police and Crime Commissioner	144.27	tbc	tbc	tbc
Essex Fire Authority	66.42	tbc	tbc	tbc
TOTAL	1,556.57	tbc	tbc	tbc

[Note- the Council Tax decisions for the County, Police and Fire authorities are to be confirmed (tbc) whilst we await determination of budgets by each of those bodies.]

LOCAL GOVERNMENT ACT AND REVIEW OF BUDGETS

- 30 The Local Government Act 2003 (Part 2) has placed further requirements on the Council's financial management, in particular to:-
- a) Consider each year a report on the Council's reserves.
 - b) Consider as part of the budget setting a report by the Chief Financial Officer on the robustness of the estimates and the assumptions made in compiling the budget (see Appendix D).
 - c) To monitor expenditure and income during the year and to take steps to correct any departures from planned outcomes.
- 31 It is the view of the Council's Head of Finance, following consultation with senior officers of the Council, that the estimates contained in this report are reasonable, robust and based on prudent assumptions. Nevertheless, as outlined the Appendix D, there are a number of risks and opportunities that will require careful and on-going management.

CONSULTATION

- 32 In formulating spending priorities reflected in the MTFS and the 2015/16 Budget the Administration and senior management team have been mindful of protecting front line services and key operations carried out by the Council. Despite the significant challenge the 2015/16 budget has presented, the proposals set out within this report represent no direct service reductions to users. The Corporate Plan 2015/16-2017/18, featuring elsewhere on the Cabinet agenda, has set priorities influenced by Harlow residents and findings of the "Have Your Say Survey". The budget proposals underpin the delivery of those priorities and the formal budget consultation undertaken during 2014 will be used to help influence future budget decisions.
- 33 Chapter 20, Part 1 of The Localism Act 2011 places a responsibility on the Council under section 38(1) to prepare a pay policy statement. This statement must set out the Council's policies relating to the pay of its chief officers (as defined by section 43(2)) and the relationship between their remuneration and the remuneration of those employees not designated as chief officers. It should also set out its policies relating to its lowest paid staff. The Cabinet will be aware that the statement affects individual employees' terms and conditions of employment which are contractual, and cannot be changed unilaterally. The Council's Pay Policy Statement is set out at Appendix G.

IMPLICATIONS

Regeneration (includes Sustainability)

Contained within the report

Author: **Graeme Bloomer, Head of Regeneration**

Finance (includes ICT)

Implications are contained within the report.

Author: **Simon Freeman, Head of Finance**

Housing

None other than as contained within the report

Author: **Andrew Murray, Head of Housing**

Community Wellbeing

Implications are contained within the report.

Author: **Graham Branchett, for Head of Community Wellbeing**

Governance (includes HR)

Implications are contained within the report. Consultation with unions will continue on employee related issues.

Author: **Brian Keane, Interim Head of Governance.**

APPENDICES

- Appendix A General Fund Budget Summary
- Appendix B Efficiency savings (B1), increased income schedules (B2) and schedule of pressures (B3)
- Appendix C Fees & charges increases 2015-16
- Appendix D Statement of the Chief Financial Officer
- Appendix E Projected Earmarked Reserves balances
- Appendix F Detailed budget analysis
- Appendix G Pay Policy Statement 2015/16

Background Papers:

None

Glossary of terms/abbreviations used

CIPFA	Chartered Institute of Public Finance and Accountancy
CMT	Corporate Management Team
DCLG	Department for Communities and Local Government
DSF	Discretionary Services Fund
HRA	Housing Revenue Account
MRP	Minimum Revenue Provision
MTFS	Medium Term Financial Strategy