

REPORT TO: CABINET

DATE: 24 JANUARY 2019

TITLE: GENERAL FUND BUDGET 2019/20

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS, PORTFOLIO
HOLDER FOR RESOURCES

LEAD OFFICERS: SIMON FREEMAN, HEAD OF FINANCE AND
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(01279) 446228

SENIOR MANAGEMENT BOARD
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This is a Key Decision

It is on the Forward Plan as Decision Number I008575

The decision is not subject to Call-in Procedures for the following reason:

The decision stands as 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 2019/20, as set out in Appendix A to the report, are approved.
- B** The proposed transfers between the General Fund and Earmarked Reserves, referred to in paragraphs 24 to 27 and Table 3 of this report and set out in Appendix C to the report, are approved.
- C** The proposed Fees and Charges, as set out in Appendix E to the report, are approved.
- D** The Pay Policy Statement, as set out in Appendix G to the report, is approved.
- E** The Council's Band D Council Tax for 2019/20 is set at £277.73 representing an increase in Council Tax of two per cent for the forthcoming year.

REASON FOR DECISION

- A** 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 2019/20 General Fund Budget is prepared alongside the Medium Term Financial Strategy (MTFS). The MTFS covers the period 2019/20 to 2021/22 and was considered as an earlier item on the agenda for this meeting. It draws upon the fiscal backdrop set out in that report, sets the detailed budget requirement for the forthcoming financial year and proposes the resulting Council Tax charge required to maintain a balanced budget for the year.

Government Grant

2. Following its Spending Review in 2015, the Government published its Local Government Finance Settlement for 2016/17 and, in a step away from its usual annual arrangements, also provided indicative settlement figures at individual authority level for the three subsequent years 2017/18 to 2019/20. This was accompanied by an option for councils to formally accept the four year deal. Cabinet resolved to accept the Government's proposal in order to minimise the risk of further funding reductions in the remaining years of its MTFS as far as possible, at its meeting on 13 October 2016
3. The Council's main Government grant funding to support General Fund services has already reduced by over 52 per cent over the period from 2013/14 to 2018/19. The draft settlement applied to the Council for 2019/20 indicates that the Council faces a further reduction of nearly 3.5 per cent in Government support. The MTFS considers the impact of these funding changes and Business Rates Retention.

Proposed Original General Fund Estimate 2019/20

4. The Council's latest MTFS sets out a projection of General Fund expenditure and funding over the three year period 2019/20 to 2021/22. The General Fund Budget for 2019/20 sets out these details for every service, and reflects the continuing increase in pressures on the Council's services and the on-going effect of other externally driven pressures on the Council's finances (such as national pay awards, homelessness obligations, supplier inflation and business rates revaluations). The budget also reflects the announcements made by the Government in the Provisional Local Government Finance Settlement 2019/20, announced on 13 December 2018.
5. In February 2018, Full Council approved an MTFS that assumed a zero per cent increase in the level of Council Tax in 2018/19 followed by a 1.99 per cent increase for the remaining two years of the three year strategy. The MTFS projection at that point in time identified that a balanced budget could be maintained without additional savings targets for 2019/20 and 2020/21.
6. Having agreed to accept the Government's four year funding deal, the Provisional Local Government Finance Settlement, has confirmed the Government's support provided to the Council (in the form of retained business rates and its Settlement Funding Assessment) will be closely aligned with the four year forecast, including the dropping out of Revenue Support Grant (RSG)

in 2019/20. Whilst the Government has computed that the Council's RSG becomes a negative sum (representing a repayment back to Government), the Finance Settlement announcement has alleviated this pressure in 2019/20 by setting a nil repayment obligation for the year.

7. Meanwhile, the Settlement does confirm that the ongoing pressure being placed upon local government will continue and that there will be ongoing consultation during the 2019/20 financial year in relation to the financial reforms that the Government is seeking to make to the funding arrangements. This includes the Government's intended move towards the 75 per cent Business Rates Retention scheme which has been announced previously. Work to deliver a balanced budget for 2019/20 has identified a small number of areas of the Council's budget where further savings can be delivered. These are detailed in Appendix B to this report. The most notable savings stem from the re-tender of the refuse contract and from ensuring commercial property rent levels continue to be diligently reviewed to reflect market conditions.
8. The table in Appendix A shows a summary of the proposed budget for 2019/20, together with the budget for the current year which was approved by Full Council in February 2018. The summary shows the budgets for each service together with other key estimate headings and contribution requirements to and from reserves.
9. The main changes in the proposed 2019/20 Budget compared with assumptions in the February 2018 MTFs are shown in Table 1 below.

Table 1 – Changes in 2019/20 Budget Compared with Assumptions in MTFs (as originally approved in February 2018)

	£000s	£000s
Original MTFs Savings Target (Council February 2018)		0
Council Tax Setting Changes		
Adjust from Council Tax Base	20	
Impact of Council Tax Increase	(6)	
	14	14
Identified Budget Pressures		
Homelessness Prevention	288	
Playhouse (Staff)	33	
Regeneration Team POD/GAF Income	30	
Water Gardens Car Park	56	
Clinical Collections	15	
Commercial Properties	22	
Commercial Properties - Asbestos	15	
HTS Pensions	31	
Street Cleaning - Additional Bins	36	
Recycling	40	
Living Wage	153	
Christmas Lights	20	

Members' Allowances	8	
Additional Hours - Corporate Support	25	
		772
Other Changes		
Additional Pay Pressure	33	
Additional Price Inflation	51	
Variations to MTFS assumptions:		
Settlement Funding Assessment	(250)	
Other Net variations to MTFS assumptions	(15)	
		(181)
Total Revised Savings Target		605
Financed By:-		
Efficiency Savings (Appendix B1)	(226)	
Income/ Recharges (Appendix B2)	(379)	
Total Financing		(605)

10. A full schedule of the above budget variations is set out in Appendix B to this report. Meanwhile, Members may find the following details worthy of note:
11. The cost of homelessness prevention has significant cost implications, adding £288,000 above the 2018/19 budget projection. Homelessness is increasing both nationally and locally, the Government has identified this as an ongoing priority. The Council is working closely with individuals, families and landlords to identify early solutions for applicants and potential applicants for homelessness support. The forward forecasting is based on the number of occupied temporary accommodation units, and the expected increase in future demand of units. Due to the 35 per cent increase in homeless in 2017/18, a 25 per cent increase in homelessness within 2018/19 was projected, with a nine per cent prevention rate, due to the introduction of the Homeless Reduction Act. The number of homeless approaches received in terms of caseload over the financial years is as follows:
- a) 16/17 – 205 cases
 - b) 17/18 – 231 cases
 - c) 18/19 – 285 cases up to the end of October 2018.
12. The Council has adopted the status of a Living Wage Employer. In support of this, it is committed to opening up opportunities for apprenticeships. The proposed 2019/20 budget includes provision for 11 apprenticeships. Therefore, adopting the living wage as a minimum salary across all employees results in a budget pressure of £153,000.
13. The favourable Settlement Funding Assessment variation of £250,000 stems from the fact that, whilst the January 2018 MTFS projected that the Council will

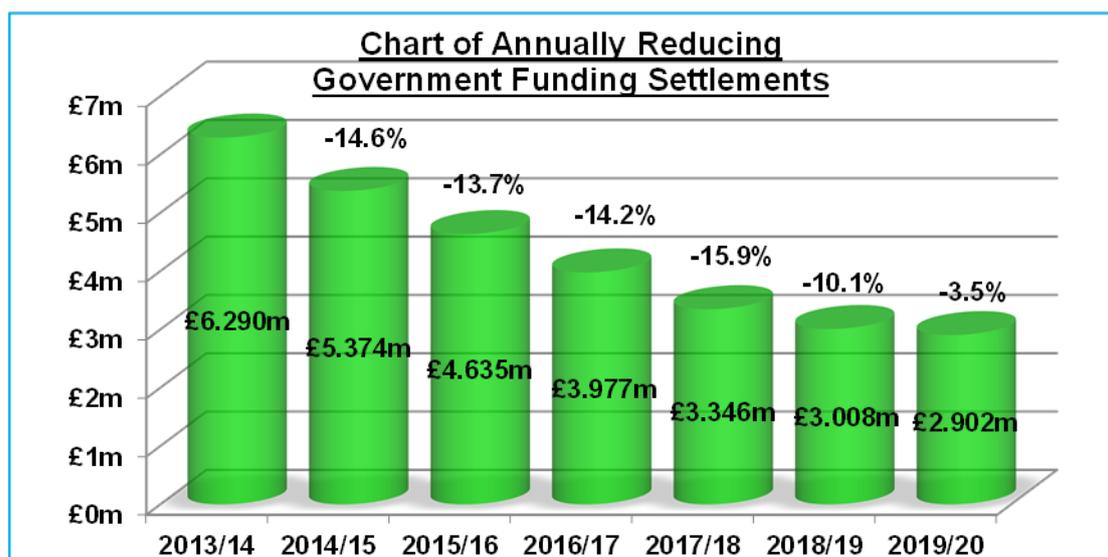
be subjected to a negative RSG, the Government has protected councils in 2019/20 from this impact by meeting that pressure in this coming financial year.

14. Following a review by the Independent Remuneration Panel, it is proposed that provision be made in line with their recommendation for the Members' Basic Allowances to be increased by five per cent and Special Responsibility Allowances by two per cent with effect from 1 April 2019. A report on the Panel's proposals will be considered by Full Council on 7 February 2019. If approved, these would represent the first increases in Members' allowances at this Council since 2011/12. Approval of these increases is for the Council to determine and this budgetary sum supports this.
15. The pay award for 2019/20 has been finalised and included in the budget with a two per cent increase for the majority of staff. Exceptions to this stem from adoption of the Living Wage and to the marginal reshaping of spinal column points by the National Joint Council, in which lower pay grades have been removed. There is very little impact of the grade adjustments to this Council because it is already meeting or exceeding the minimum salary levels within the revised structure.
16. Provision has been included in individual budgets for anticipated price changes in Business Rates, energy costs and external contracts. In accordance with the normal practice, supplies and services budgets have not, in general, been increased to allow for inflationary increases in costs. Instead 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

17. As previously stated, the Council has adopted the Government's four-year formula funding settlement. Whilst this has protected against further funding cuts, the Government's formula drives annual reductions in the grant it provides to the Council. The impact on the 2019/20 budget places a reduction in Government grant of over £80,000, equating to a cut of 3.5 per cent in the Council's core funding. The Provisional Local Government Settlement 2019/20, has confirmed the Government's commitment to align the funding for next year with the figures set out in the four year deal announced in the 2016/17 Local Government Finance Settlement. One further aspect of the funding settlement is the shift from positive RSG to negative RSG. If there was a need for the Council to make a payment equal to its negative RSG back to the Government, this would have placed a further burden of £295,187 onto the General Fund budget.

Table 2 – Chart of Annually Reducing Government Funding Settlements



Tax Base and Collection Fund

18. Regulations require the Council to estimate 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). Following changes imposed by the Government in Business Rates Retention and the localisation of Council Tax Benefits Schemes in 2013/14, calculations have become more complex, especially in relation to Business Rates. As a result of the high risk of year on year income variations from Business Rates now placed upon the Council, there is a new level of volatility within the General Fund revenue budget. In order to mitigate against such volatility as far as possible, the Council is maintaining an earmarked grants reserve to cushion the budget from extreme cashflow variations that arise each year from Business Rates collection. The tax base, for the purpose of computing the average Band D Council Tax in 2019/20, equates to 26,279.00 equivalent Band D properties.

Council Tax

19. The MTFs presented to Full Council in February 2018 included an assumption that Council Tax increases after 2018/19 would be at 1.99 per cent (the maximum increase allowable at that time under the Government's regulations without holding a referendum was two per cent). The latest provisional Local Government Finance Settlement announced that the referendum limit will be set at three per cent for 2019/20. The proposed budget for 2019/20 now includes an increase in Council Tax for 2019/20 of two per cent.

Income

20. As part of the 2019/20 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 E to this report.
21. Appendix B to this report identifies additional income from fees, rents and grants for the financial year 2019/20.

Discretionary Services Reserve

22. The Discretionary Services Reserve (DSR) provides time limited funding to help support the discretionary services and to provide opportunity to identify alternative means of provision and/or sources of finance for these popular services. The fund continues to provide financing throughout the 2019/20 budget, and its continuation is supported by the allocation of New Homes Bonus (NHB) grant topping up this fund. Having looked into alternatives for the provision of services funded by the reserve extensively since 2012 it is clear that there are some key areas that will be extremely difficult to transfer to any form of alternative provision. The 2018/19 budget included provision for funding for the Playhouse and remaining elements of the Community Safety Team to be reintroduced into the General Fund base budget. The proposed budget for 2019/20 includes reintroducing Pets Corner into core funding of the General Fund.

New Homes Bonus

23. The NHB was first introduced in 2011/12. This grant was subject to a Government review during 2016. As a consequence of this review, the method of calculation, its distribution and the period for which it is payable have changed. The funding period for which the grant is paid was initially six years. The funding period will be reduced to only four years in 2018/19. This had been anticipated as a result of the previous announcements and the sum expected in 2019/20 at £867,614 is broadly aligned with the sum planned for. Of the total expected the DSR had forecast to receive a sum of £798,270 and, based upon the provisional settlement, the full projected grant of £867,614 will be transferred to that reserve.

General Reserves

24. The position with regard to the Council's uncommitted General Fund Reserve is set out in Table 3. The table shows the planned one off use of the Reserve in the original budget for the current year, together with in-year changes arising from consideration of the 2017/18 Final Accounts report in September 2018. The forecast has also been updated with the latest budget monitoring forecasts as reported to Cabinet in December 2018.

Table 3 – Uncommitted General Fund Reserve

	£millions
Uncommitted General Fund Reserve as at 1 April 2018	6.734
Carry-forward and Reserve Movements per Council/ Cabinet approvals:-	
- Budget Carry Forwards from 2017/18 (approved Cabinet 2018)	(0.137)
Variations Resulting From Previous Cabinet Decisions	(2.276)
Forecast Budget Variations in 2018/19	1.076
Projected Year-end Balance 31 March 2019	5.397

25. The Local Government Act 2003, section 25 (1) (b) requires that the Chief Financial Officer (the Head of Finance) 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 2019 is currently projected at £5,397,000, and therefore significantly above the recommended minimum level.
26. Current conditions across the UK economy and constitutional uncertainties impose considerable doubt on the level of funding available to maintain Council services. Whilst a wholesale review of the reserve levels is planned to commence in 2019, the outcomes of Brexit and its respective impact on central government budget allocations represent a significant risk of funding shortfalls. As a result, there is currently no proposal to allocate part of the General Fund reserve balance. However, it is anticipated that non housing capital works to maintain the Council's property portfolio will require future allocations.

Earmarked Reserves

27. The Council holds a number of earmarked reserves. Table 4 below provides a summary of the proposed movements for both 2018/19 (latest revision to the original budget) and 2019/20 in respect of the General Fund earmarked reserves, for which Council's approval is required within the recommendations to this report. Full details of the balances of all earmarked reserves, together with indicative/proposed movements are provided in Appendix C to this report.

Table 4 – Summary of Proposed Movements on General Fund Earmarked Reserves

Earmarked Reserves	Net Movement To/ (From) Reserves		Details
	2018/19 Revised Budget £	2019/20 Original Budget £	
Perpetuity Reserves	2,460	8,020	Routine property maintenance funding obligations. Interest is added each year to prolong balances.
Debt Financing Reserve	237,840	698,603	Set aside for debt financing costs and to support anticipated non-housing capital programme needs.
Discretionary Services Fund	(85,730)	247,770	Drawn down to cover cost of discretionary services, net of NHB grant.
Environment Reserve (previously Energy Fund)	3,020	1,770	Reserve replenishment programme and interest allocation.
Environmental Urgent Works & Improvement Reserve	1,000,000	0	To facilitate urgent works and improvements across the whole town and targeted at initiatives and issues that will make Harlow look and feel like a better place to live, work and play.
The Harlow & Gilston Garden Town Funding Reserve	500,000	0	To support the delivery and achievement of the best outcomes from this significant development for the Town.
Insurance claims - GF	50,000	50,000	Self-insurance.
Insurance Fund - GF (see Note 4.)	99,700	110,180	Self-insurance.
Invest To Save & Improve Reserve - see Note 5.	(1,290)	3,250	Utilised for JVCO demobilisation.
Planning Reserve	(100,000)	(200,000)	Applied for Local Development Framework
Regeneration Reserve	(64,270)	(50,500)	Financing of fixed-term brand and marketing budget.
Regeneration & Enterprise Reserve	23,280	0	Indicative NHB balances set aside for town development.

Splash Parks Reserve	750,000	0	To support project to replace the Town's remaining five paddling pools with new slash park facilities.
Street Lighting Reserve	(10,940)	(13,850)	To finance ECC charge for extended lighting across the town.
Volunteering Support Reserve	(40,000)	0	An initiative aligned with residents' time spent volunteering that has positive health and wellbeing benefits.

Prudential Code and Borrowing

28. 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 Council's Treasury Management Strategy, contained within the separate Capital and Treasury report, included elsewhere on this meeting's agenda.
29. There is a separate report to this meeting on the Housing and Non Housing Capital Programmes. Due to the continuing uncertainty and volatility within the property market which is impacting on both the value and potential timing of receipts from asset disposals coupled with the limited remaining scope for asset disposals, the MTFs makes provision for a Minimum Revenue Provision (MRP) 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 MRP against capital borrowing is sufficient and details of the MRP requirement are routinely reported as part of the Treasury Management Strategy mentioned above.

Council Tax

30. As stated in paragraph 14, the proposed General Fund Budget includes an increase of two per cent in Harlow's element of the Council Tax for 2019/20. It also includes the impact of the Collection Fund balance.
31. As part of setting the Council Tax for 2019/20, the estimated balance on the Collection Fund at 31 March 2019 has to be taken into account. Under Government regulations this has to be estimated by the Council's Head of Finance on 15 January 2019 with the precepting bodies notified accordingly (precepting bodies are those for which the 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 Ministry for Housing, Communities and Local Government (MHCLG) 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.

32. 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 adjustments required to the balance on the Collection Fund (such as accounting adjustments under the Government's Safety Net mechanism).
33. Taking all of these factors into account, the overall position has resulted in a projected surplus for Council Tax of £2,190,810 and a projected deficit on Business Rates of £786,760 as at 31 March 2019. The allocations of these balances are set out in the table below. Provisions for Business Rates appeals, already set aside by each of the precepting authorities, are included in the figures shown; the provision being £956,000 as at 31 March 2018.
34. The Council Tax surplus is shared in accordance with the regulations with all precepting bodies, whilst the allocation of the balance on Business Rates is allocated in accordance with the proportional shares set out in the Local Government Finance Acts 1988 and 2012.
35. A meeting of Full Council is scheduled for 28 February 2019 to approve the Council's element of the Council Tax for 2019/20. 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. All three bodies are not due to meet to set their elements of the Council Tax until dates after the Cabinet meeting.

Table 5 – Composition of Council Tax charge per average Band D property for each authority

	2018/19 Band D Council Tax	2019/20 Band D Council Tax	Annual Increase	Increase %
	£	£	£	
Harlow DC	272.28	277.73	5.45	2.00
Essex County Council	1,221.75	tbc	tbc	tbc
Essex Police and Crime Commissioner	169.02	tbc	tbc	tbc
Essex Fire Authority	70.38	tbc	tbc	tbc
TOTAL	1,733.43	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

36. 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 (as set out in Appendix D)
- c) to monitor expenditure and income during the year and to take steps to correct any departures from planned outcomes.

37. 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 in Appendix D, there are a number of risks and opportunities that will require careful and ongoing management.

Consultation

38. In formulating spending priorities reflected in the MTFs and the 2019/20 Budget, the Administration and Senior Management Board have been mindful of protecting front line services and key operations carried out by the Council. Despite the challenge the 2019/20 budget has presented, the proposals set out within this report represent no direct service reductions to users. The Corporate Plan 2019/20, featuring elsewhere on the agenda, has set priorities and the budget proposals underpin the delivery of those priorities.

39. 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

Place (Includes Sustainability)

As contained within the report.

Author: Andrew Bramidge, Project Director – Enterprise Zone and Interim Head of Planning

Finance (Includes ICT)

Implications are contained within the report.

Author: Simon Freeman, Head of Finance and Deputy to the Managing Director

Housing

None other than as contained within the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

Implications are contained within the report.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

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

Author: Simon Hill, 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 – Projected Earmarked Reserves balances

Appendix D – Statement of the Chief Financial Officer

Appendix E – Fees & charges increases 2019-20

Appendix F – Detailed budget analysis

Appendix G – Pay Policy Statement 2019-20

Background Papers

None.

Glossary of terms/abbreviations used

CIPFA – Chartered Institute of Public Finance and Accountancy

DSR – Discretionary Services Reserve

HTS – Harlow Trading Services

MHCLG – Ministry of Housing, Communities and Local Government

MRP – Minimum Revenue Provision

MTFS – Medium Term Financial Strategy

NHB – New Homes Bonus

RSG – Revenue Support Grant