

**REPORT TO:** CABINET

**DATE:** 23 JANUARY 2020

**TITLE:** GENERAL FUND BUDGET 2020/21

**PORTFOLIO HOLDER:** COUNCILLOR MIKE DANVERS, PORTFOLIO  
HOLDER FOR RESOURCES

**LEAD OFFICERS:** SENIOR MANAGEMENT BOARD (01279) 446004

SIMON FREEMAN, HEAD OF FINANCE AND  
DEPUTY TO THE CHIEF EXECUTIVE  
(01279) 446228

**This is a Key Decision**

**It is on the Forward Plan as Decision Number I010154**

**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 2020/21, 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 28 to 30, 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 2020/21 is set at £283.26 representing an increase in Council Tax of 1.99 per cent for the forthcoming year.

**REASON FOR DECISION**

- A** The Council must approve an annual budget and Council Tax charge for the forthcoming year under legislation.

## **BACKGROUND**

1. The 2020/21 General Fund Budget is prepared alongside the Medium Term Financial Strategy (MTFS). The MTFS covers the period 2020/21 to 2022/23 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.
2. In formulating spending priorities reflected in the MTFS and the 2020/21 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 2020/21 budget has presented, the proposals set out within this report represent no direct service reductions to users. The Corporate Plan 2020/21, featuring elsewhere on the agenda, has set priorities and the budget proposals continue to underpin the delivery of those priorities.

### **Government Grant**

3. The four year Local Government Finance Settlement (LGFS) deal proposed by the Government and accepted by the Council in 2016/17 expires at the end of the current (2019/20) year. The 2020/21 draft finance settlement was announced on 20 December 2019 and the details have been incorporated into this report. The settlement is for one year only and future years remain uncertain.

### **Proposed General Fund Budget 2020/21**

4. In February 2019, the Council approved an MTFS which assumed a 1.99 per cent increase in the level of Council Tax in 2020/21 and 2021/22 requiring in-year savings of £75,000 and £254,000 respectively.
5. The Council's latest MTFS shows projected General Fund expenditure and funding over the three year period 2020/21 to 2022/23. The budget for 2020/21 shows details for every service and reflects continuing pressures on the Council's finances. These include pay and price inflation, pension fund costs and homelessness obligations.
6. Meanwhile, work to deliver a balanced budget for 2020/21 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.
7. The table in Appendix A shows a summary of the proposed budget for 2020/21, together with the budget for the current year approved last February. The summary shows the budgets for each service together with other key estimate headings and contributions to and from reserves.
8. The main changes in the proposed 2020/21 budget compared with the February 2019 MTFS are shown in Table 1 below.

**TABLE 1 - Changes in 2020/21 Budget Compared with Assumptions in MTFS**  
(as originally approved in February 2019)

	£000s	£000s
<b>Original MTFS Savings Target (Council February 2019)</b>		<b>75</b>
<b>Council Tax Setting Changes</b>		
Growth in Council Tax Base	(114)	
Costs of the 2018 Pay award - Grading Changes	150	
Museum running costs	120	
Non achievable income in original assumptions	125	
Reduced HTS Pensions Contribution	(14)	
Financing costs	(327)	
		(60)
		<b>15</b>
<b>Identified Budget Pressures</b>		
Pay Pressure	43	
Price Inflation (non-pay)	28	
SEEN Nightclub	95	
Housing new burdens grant income	48	
ECC recycling credits income reduction	46	
Revenue cost of new telephony system	30	
New Office 365 Licensing costs	77	
Reduction in housing benefits admin grant	50	
Reduction in land charges income	15	
Homelessness prevention	148	
Re introduce Pets Corner to Base Budget	28	
Revenue costs of capital	50	
Pension contribution rate increase (16.3 to 20.1%)	266	
Pensions Deficit yr 1 impact	960	
Superannuation added years reduction	(11)	
Contribution from General Fund Reserve for Pensions	(1,606)	
Net increase in housing benefit subsidy	(70)	
<b>Total Pressures / Savings</b>		<b>197</b>
<b>Investment in Corporate Priorities:</b>		
Additional Staffing		522
<b>Revised Budget Gap</b>		<b>734</b>
<b>Financed By:-</b>		
Government S31 Grant Income	(605)	
Increase in Finance Settlement from Government	(79)	
Council Tax Collection Fund Surplus	(50)	
<b>Total Financing</b>		<b>(734)</b>

9. The main variations are as follows.
10. The cost of homelessness prevention has increased significantly, adding £148,000 to the MTFs 2020/21 budget projection. Homelessness continues to increase both locally and nationally and its prevention remains a key focus of activity for the Council. Action being taken includes working closely with individuals, families and landlords, seeking money advice and maximising income/benefits. The number of households being placed in temporary accommodation has risen steadily in Harlow whilst the supply of accommodation continues to reduce and become restrictive. There were 255 households in temporary accommodation in 2018/19; at November 2019 there were 257; and projected demand in 2020/21 is 332 to 350.
11. The pay award for 2020/21 has not yet been finalised and the budget has therefore allowed for an increase of two per cent. In addition, as part of the two year pay deal agreed in 2018/19 the Council, in agreement and negotiation with the unions, is working towards the implementation of the marginal reshaping of spinal column points by the National Joint Council. This involves the removal of lower pay grades and the adjustment of the remaining grading structure to enable pay differentials to be maintained. Whilst the full impact of the grade adjustments is yet to be finalised the budget proposals include a pressure of £150,000 to ensure that this can be accommodated in the 2020/21 and future base budgets once completed.
12. 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 from 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.

### **Employer's Pension Fund Contributions**

13. In addition to the above, the results of the triennial actuarial valuation of the Essex Pension Fund (as at 31 March 2019) take effect from 2020/21. These affect the amount the Council has to contribute to cover the fund deficit, the employer's percentage contribution rate to cover current and future liabilities (up from 16.3 per cent to 20.1 per cent) and the payment to HTS to reflect the capped contributions contained within the service agreement.
14. Based on annual payments over the next three years the estimated total cost to the General Fund of the amended contributions is £3.93 million, which is some £410,000 less than the amounts included in the Council's 2020/21 budget and MTFs. However, it is intended to take advantage of an option to pay the total deficit contribution for the three years (£2.41 million) in April 2020 at an additional saving of £470,000. There is insufficient budget in 2020/21 to cover the increased payment and a contribution from the General Fund Reserve of £1.61 million will be required. This will, however, be replenished in 2021/22 and

2022/23 from the resulting payment holiday and the resulting underspend against budgets for each year.

## **Council Tax**

15. The MTFS agreed by Council in February 2019 was based on a 2019/20 Council Tax increase of two per cent and an assumption that future years' increases would be no greater than the maximum amount permissible as determined by the Government. The LGFS published on 20 December 2019 has confirmed that the maximum permissible increase will be two per cent for 2020/21.
16. The Council's 2020/21 tax base (the number of Band D equivalent dwellings in the area), which is used to determine the level of Council Tax charged to each dwelling by the Council and the preceptors, has been calculated as 26,943 (2019/20 26,279).
17. The Council is required to forecast the surplus or deficit on the Council Tax element of the Collection Fund (the account which contains the amounts collected from taxpayers and distributed to local authorities) at 31 March 2020. This amount, forecast at a £2.5 million surplus, will be distributed to the Council (£394,000) and the preceptors in 2020/21 (in 2019/20 £2.2 million with £344,000 to the Council).

## **Business Rates**

18. The Council is also required to forecast the surplus or deficit on the Business Rates element of the Collection Fund at 31 March 2020. At the end of 2018/19 the Collection Fund carried forward a deficit of £1.9 million into 2019/20. During the year the Council has suffered a significant loss in rates payable (which is the subject of ongoing challenge by the Council) resulting in an in-year deficit of £3.1 million. The resulting forecast deficit at 31 March 2020 of £5 million will need to be made up by the Council (£2 million), the Government and the precepting authorities in 2020/21.
19. Unless the Council's challenge against the loss in rates is successful, the losses suffered so far will have a knock on effect on 2020/21. In addition, there are other potential reductions in rates payable with a further decline in the Council's resources. To what extent is uncertain until the LGFS referred to above is published, when the position will be reviewed. The review will also encompass the effect on the Essex Business Rates pool of which the Council is a member.
20. Cabinet has previously been advised of the high risk of year on year income variations in Business Rates income, and the Council has established a reserve to mitigate against such volatility. Funding is proposed to be drawn down from the reserve in 2020/21 to offset the impact of the accumulated deficit detailed in paragraph 16 above.

## **Income**

21. As part of the 2020/21 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.
22. Appendix F to this report identifies additional income from fees, rents and grants for the year.

## **Pay Policy Statement**

23. Incidental to the Council's staffing budgets is the Council's Pay Policy Statement which must be prepared annually and approved by the Council before the 31 March of the preceding financial year. The statement relates to the remuneration of chief officers and of the lowest-paid employees; and the relationship between the remuneration of chief officers and of all other staff. The statement is attached as Appendix G to the report.

## **Robustness of Estimates**

24. The Council's Head of Finance is required by statute to report to the Council, when it is considering the budget and level of Council Tax, on the robustness of the estimates made. The Council must have regard to the report when making its decisions.
25. The Council's Head of Finance reports that, following consultation with senior officers of the Council, it is his view that the estimates contained in this report are reasonable, robust and based on prudent assumptions. Nevertheless, as outlined in Appendix D to the report, there are a number of risks and opportunities that will require careful and ongoing management.

## **Discretionary Services Fund**

26. The Discretionary Services Fund (DSF) is a reserve which provides time-limited funding to support discretionary services pending the identification of alternative means of provision and/or sources of finance. With uncertainty over the future of the New homes Bonus (NHB) which has previously been used to make contributions to the fund, the Council has previously made budget provision within its General Fund budget proposals to reintroduce the Playhouse and the Community Safety Team back in to core funding. The 2020/21 base budget now also includes provision to fully fund Pets Corner, removing any uncertainty of the ongoing funding of this service.

## **New Homes Bonus**

27. The actual amount to be received will be included in the LGFS referred to above. The amount currently forecast for 2020/21 is £1.06 million (2019/20 – £0.868 million) which will be transferred into the DSF.

## General Fund Reserve

28. Table 2 shows the position for the uncommitted General Fund Reserve taking into account in-year changes arising from consideration of the 2019/20 Final Accounts report in September 2019 and the budget monitoring position reported to Cabinet in December 2019.

**Table 2 - Uncommitted General Fund Reserve**

	£millions
<b>Balance at 1 April 2019</b>	<b>4.488</b>
Approved by Cabinet / Council - budget carry forwards from 2019/20	(0.138)
Variations resulting from previous Cabinet decisions	(0.100)
Forecast budget variations in 2019/20	0.075
<b>Projected balance at 31 March 2020</b>	<b>4.325</b>
Pensions drawdown	(1.605)
Balance at 31 March 2021	2.720

29. The Council's Head of Finance is required by statute to report to the Council on the adequacy of its reserves when the Budget and Council Tax are set. The report is attached as Appendix D. It recommends that the minimum level of the uncommitted Reserve (the General Fund balance) is set at £2,500,000 to reflect adequate provision to meet known or potential future risks. Uncommitted reserves at 31 March 2020 are currently forecast at £4,325,000, significantly above the recommended minimum level. However, a contribution from the reserve of £1.6 million to meet the Council's pension fund deficit contribution is required in 2020/21 (set out in paragraphs 13 and 14) which will reduce the forecast balance to £2.7 million. The reserve will be replenished in 2021/22 and 2022/23.

## Earmarked Reserves

30. The Council has both General Fund and HRA earmarked reserves. Full details of all General Fund reserves are in Appendix C to this report. A summary of proposed movements in those reserves for 2019/20 (updated) and 2020/21 are in Table 3 below for approval,

**TABLE 3.****Summary of Proposed Movements on General Fund Earmarked Reserves**

Earmarked Reserves	Net Movement To/ (From) Reserves		Details
	2019/20 Revised Budget £	2020/21 Original Budget £	
Perpetuity Reserves	3,690	5,420	Routine property maintenance funding obligations. Interest is added each year to prolong balances.
Debt Financing Reserve	237,840	237,840	Set aside for debt financing costs and to support anticipated non-housing capital programme needs.
Discretionary Services Fund	232,770	642,810	Drawn down to cover cost of discretionary services, net of NHB grant.
Environment Reserve (previously Energy Fund)	1,240	1,480	Reserve replenishment programme and interest allocation.
Enterprise Zone Disregard Reserve	1,951,079	(1,175,875)	
Environmental Urgent Works & Improvement Reserve	(401,907)	(1,292,060)	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	(105,465)	(171,560)	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.)	129,650	134,020	Self-insurance.
Invest To Save & Improve Reserve - see Note 5.	2,290	2,720	Utilised for JVCO demobilisation.
Planning Reserve	(184,529)	(50,000)	Applied for Local Development Framework
Regeneration Reserve	(380,185)	(262,500)	Financing of fixed-term brand and marketing budget.
Regeneration & Enterprise Reserve	(126,456)	(61,840)	Indicative NHB balances set aside for town development.
Splash Parks Reserve	(21,761)	0	To support project to replace the Town's remaining five paddling pools with new splash park facilities.
Street Lighting Reserve	(1,243)	0	To finance ECC charge for extended lighting across the town.
Volunteering Support Reserve	0	0	An initiative aligned with residents' time spent volunteering that has positive health and wellbeing benefits.

## **Council Tax Levels**

31. The proposed budget for 2020/21 is based on an increase in the Council's portion of Band D Council Tax of 1.99 per cent, from £277.73 in 2019/20 to £283.26. This will be considered by Full Council on 30 January 2020.
32. The final composite level of Council Tax depends on decisions by Essex County Council and the Essex Police, Fire and Crime Commissioner. Both bodies are due to meet to set their elements of the Council Tax on dates after the Cabinet meeting. Full Council will meet again on 27 February 2020 to approve the composite Council Tax and the formal Council Tax resolution.

## **IMPLICATIONS**

### **Environment and Planning (Includes Sustainability)**

As contained within the report.

**Author: Andrew Bramidge, Project Director – Head of Environment and Planning**

### **Finance & Property (Includes ICT)**

Implications are contained within the report.

**Author: Simon Freeman, Head of Finance and Deputy to the Chief Executive**

### **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) and schedule of pressures (B2)

Appendix C – Projected Earmarked Reserves balances

Appendix D – Statement of the Chief Financial Officer

Appendix E – Analysis of Fees and Charges 2020/21

Appendix F – Detailed budget analysis

Appendix G – Pay Policy Statement 2020/21

## **Background Papers**

None.

## **Glossary of terms/abbreviations used**

CIPFA – Chartered Institute of Public Finance and Accountancy

DSF – Discretionary Services Fund

HTS – Harlow Trading Services

LGFS – Local Government Finance Settlement

MHCLG – Ministry of Housing, Communities and Local Government

MTFS – Medium Term Financial Strategy

NHB – New Homes Bonus