

REPORT TO: CABINET

DATE: 30 JANUARY 2014

TITLE: GENERAL FUND REVENUE BUDGET 2014/15

PORTFOLIO HOLDERS: COUNCILLOR TONY DURCAN

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM (01279)
446099

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This is a Key Decision

It is on the Forward Plan as Decision number I001082

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 2014/15, as set out in Appendix A, are approved.
- B** The proposed Fees and Charges, as set out in Appendix C, are approved.
- C** The Pay Policy Statement, as set out in Appendix G, is approved.
- D** The technical changes to Council Tax Exemptions and Discounts set out in the Cabinet report on 26 September 2013 and now incorporated into the tax base calculations for 2014/15 are approved.
- E** The Council's Band D Council Tax for 2014/15 be set at £259.13, which represents a 1.49% increase compared to the Band D Council Tax for 2013/14 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 2014/15 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 feel the on-going effects of the global recession. The Council's finances continue to be affected by major movements in uncontrollable costs such as energy prices, 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 2013. The settlement covers 2014/15 and 2015/16. The Council's main Government grant funding to support General Fund services has already reduced by nearly 35% over the period 2011/12 to 2013/14. The latest draft figures released indicate that the Council faces further reductions of 14.16% and 16.43% in Government support in 2014/15 and 2015/16 respectively. The Medium Term Financial Strategy, elsewhere on the Cabinet agenda, deals with these funding changes and Business Rate Retention (BRR).

PROPOSED ORIGINAL GENERAL FUND ESTIMATE 2013/14

3. The downturn in the economy and its effect on the Council's finances, together with the impact of the draft grant settlement referred to previously, have been reflected in the Council's latest Medium Term Financial Strategy covering the period 2014/15 to 2018/19 and in the General Fund Budget for 2014/15.
4. The Medium Term Financial Strategy (MTFS) sets out a projection of General Fund expenditure over the five-year period 2014/15 to 2018/19, assuming a 1.49% increase in the level of Council Tax in 2014/15 and 1.5% increase per annum thereafter. The MTFS projection reported to Cabinet in February 2013 identified a budget savings target for 2014/15 of £1,375,000. However, as a result of the changes in the grant settlement and other identified budget changes, the gap has changed in net terms, to £1,534,000.
5. 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 2014/15 with all savings identified detailed in 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. An analysis of the 2013/14 budget has shown that only 29% of the budget is spent on discretionary services with the remaining 71% being spent on with the statutory services: those the Council is required to provide.

6. Appendix A shows a summary of the Administration's proposed budget for 2014/15, together with the budget for the current year approved in February 2013. 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 2014/15 Budget compared with assumptions in the February 2013 MTFS are shown in Table 1.

TABLE 1 - Changes in 2014/15 Budget Compared with Assumptions in MTFS
(as originally approved in Feb 2013)

	£000s	£000s
Original MTFS Savings Target (Cabinet February 2013)		1,375
Decrease/ (Increase) in Grants		
Further Reduction in Revenue Support Grant		60
Council Tax Setting Changes		
Technical Adjustments - ECC		(24)
Adjust for movement in Council Tax Base		(240)
Collection Fund - net deficit		51
Identified Budget Pressures		
MRP provision	31	
Energy	74	
Mark Hall Gardens	25	
Planned 2014/15 DSF Contribution	349	
	<u>349</u>	479
Other Changes		
Pay awards and price increases	(161)	
Pension fund revaluation	(36)	
Housing Benefits/ Council Tax administration subsidy	(162)	
Capital funding	(50)	
Kier contract extension	242	
		<u>(167)</u>
Total Revised Savings Target		1,534
Financed By:-		
Efficiency Savings (Appendix B1)	1,497	
Income/ Recharges (Appendix B2)	37	
Total Financing		1,534

PROVISION FOR PAY AWARDS & INFLATION

8. Provision is built into the 2014/15 budget for additional expenditure that may be expected during the coming year including the costs of pay awards and contractual inflation relating to Council contracts with third parties. The impact of the pay freeze over the first half of the spending review period and the pay reduction agreed as part of the budget process for 2011/12, and subsequent years, has resulted in a real-terms pay cut for staff of over 10% over this period (when accounting for inflation). In setting the 2014/15 budget, provision has been included to meet a pay award equivalent to an average increase of 1.0% across all pay grades, excluding Councillors' Allowances, which will again be frozen in 2014/15.
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, 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. The lower inflation rates and the reduction of the pay provision from 1.5% to 1%, combined with other contractual changes, have resulted in a net pressure in the General Fund budget of £81,000.

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 13% for 2014/15. The original MTFs assumptions in February 2013 projected a reduction of 10%. The adjustment of £60,000 contained in Table 1 reflects the financial impacts of the changes compared with the provisional announcement made in February 2013.

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 during 2013/14 as a result of the changes imposed by the Government in Business Rates Retention and the localisation of Council Tax Benefit. The approval of these calculations was delegated to the Council's Head of Finance. Work undertaken to assess the budget impacts has resulted in a reduction to the original MTFs projected budget gap of £189,000 (£240,000 for tax base changes less £51,000 as a result of a declared 2013/14 Collection Fund

deficit); further details are provided later in the report.

Cabinet approved the implementation of four technical changes to Council Tax exemptions and discounts at its meeting in September 2013. The tax base calculations have been undertaken and include the impacts of these agreed changes under the Local Government Finance Act 2012.

The tax base, for the purpose of computing the average Band D Council Tax in 2014/15, equates to 24,304.66 equivalent Band D properties.

Council Tax

12. The MTFP presented to Full Council in February 2013 included an assumption that Council Tax increases for 2014/15 and future years would be at 1.5%. The proposed budget now includes a proposal to increase Council Tax by 1.49% in 2014/15 with future years remaining at 1.5%.

Income

13. The MTFS has in previous years identified that the Council has experienced difficulties achieving its income targets included in 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 2014/15 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 2013/14 budget setting process and are built in to the Council's employee budgets in 2014/15. Under the Local Government Pension Scheme requirements, the Essex pension fund is re-valued every three 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 £36,000 expected in 2014/15, increasing over 2015/16 and 2016/17 in line with the actuarial results. Some options exist to lessen the impact of the revaluation and these are currently being explored with the pension fund managers. Any savings on the contributions will be modelled in to 2015/16 and future years' budgets. The employer contribution rates have increased from 12.3% to 14.6% with effect from April 2014.

Local Council Tax Support Scheme

15. The national changes to Council Tax Benefit and the creation of the Local Council Tax Support Scheme (LCTS) has previously been reported to Cabinet and the new LCTS Scheme for 2014/15 was approved by Full Council in December 2013. Government grant was only provided and

identifiable in 2013/14. The Council has agreed to leave the scheme unchanged for 2014/15, but equally has not reduced the level of funding earmarked to support it despite the reduction in formula grant it will receive in 2014/15.

Discretionary Services Reserve

16. The Discretionary Services Reserve holds funding to help support the transition of discretionary services as a result of previous Council budget decisions. Additionally the 2014/15 budget proposals include further transfers of existing services in to the fund from April 2014. These services will place a higher demand on the fund balance as a result of their transfer and this will be covered through the proposed contribution of £303,000 to enable these services to be delivered for the next two financial years, plus continuation of the base budget contribution of £46,000.

NEW HOMES BONUS

17. 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 £704,002 is expected to be paid to Harlow in 2014/15. All of the non-ring fenced grant will be contributed to the Discretionary Services Reserve under proposals contained in this report to further support the delivery of those services transferred to the fund.

GENERAL RESERVES

18. A summary of 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 2012/13 Final Accounts report in July 2013. The forecast has also been updated for latest budget monitoring forecasts as reported to Cabinet in December 2013.

TABLE2 – Projected General Fund balance as at 31 March 2014

	£millions
Uncommitted General Fund Reserve as at 1 April 2013	2.792
Approved usage of Reserve per July 2013 Cabinet:-	
Budget carry forwards from 2012/13	(0.159)
Forecast Budget Variations in 2013/14	0.157
Projected Year-end Balance 31 March 2014	2.790

19. The Local Government Act 2003, section 25 (1) (b) requires that the Head of Finance makes a report 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 2014 is currently projected at £2,790,000, and therefore above the recommended minimum level.

EARMARKED RESERVES

20. The Council holds a number of earmarked reserves and as detailed in this report one of the reserves, the Discretionary Services Reserve, 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.

PRUDENTIAL CODE AND BORROWING

21. 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 report on the Council's Treasury Management Strategy included elsewhere on the Cabinet agenda.
22. 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 with effect from 2013/14 onwards. 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

23. The proposed General Fund Budget includes an increase of 1.49% in Harlow's element of the Council Tax for 2014/15. This includes the impact of the Collection Fund balance.
24. As part of setting the Council Tax for 2014/15, the estimated balance on the Collection Fund at 31 March 2014 has to be taken into account. Under Government regulations this had to be estimated by the Council's Head of Finance on 15 January 2014 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.
25. 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.
26. Taking all of these factors into account, the overall position has resulted in a projected surplus for Council Tax of £763,000 and a deficit on Business Rates of £1,550,000 as at 31 March 2014. 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	(763,000)	(125,690)	(534,970)	(69,650)	(32,690)	
Business Rates After Safety Net Adjustment	1,550,000	204,300	139,500		15,500	1,190,700
Adjustments	(27,000)	(27,000)				
Total Deficit / (Surplus) to be allocated	760,000	51,610	(395,470)	(69,650)	(17,190)	1,190,700

27. Harlow Council's share of the projected Council Tax surplus is £125,690, equivalent to a Council Tax charge of £5.17 at band D. This compares to a £2,775 surplus for the previous year, equivalent to £0.12 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 2013/14 the income from business rates has dropped significantly resulting in a forecast deficit of £1,550,000. Taking the proportional shares calculation into account the Council 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 £8.39 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 £51,610 for the Council, or a charge of £2.12 per Band D property.
28. A meeting of Full Council is scheduled for 6 February 2014 to approve the Council's element of the Council Tax for 2014/15. 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). 2013/14 figures for each body are provided in Table 4, but remain to be confirmed for 2014/15.

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

	2013/14 Band D Council Tax	2014/15 Band D Council Tax	Annual Increase	Increase %
	£	£	£	
Harlow Council	255.33	259.13	3.80	1.49
Essex County Council	1,086.75	tbc	tbc	tbc
Essex Police and Crime Commissioner	141.48	tbc	tbc	tbc
Essex Fire Authority	66.42	tbc	tbc	tbc
TOTAL	1,549.98	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

29. 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 Head of Finance 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.
30. 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

31. In formulating spending priorities reflected in the MTFs and the 2014/15 Budget, the Administration and the Corporate Management Team have been mindful of protecting front line services and key operations carried out by the Council. Despite the significant challenges that preparation of the 2014/15 budget has presented, the proposals set out within this report include no direct service reductions. The Corporate Plan 2014/15 -2016/17, 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, as such, formal consultation has not been undertaken during the budget-setting process.

32. The proposed 2014/15 General Fund Budget includes savings resulting from a reduction in the Council's staffing establishment, but mainly through the deletion of any remaining vacant posts. It is not anticipated that there will be any reduction in the workforce outside of these deletions, but should there be the impact would be minimised through redeployment opportunities wherever possible. Any post reductions will follow the normal Council practice.
33. The main General Fund costs associated with staff redundancies are:
 - a) Financial strain to the Pension Fund.
 - b) Redundancy payments.
 - c) Pay in lieu of notice.

These associated costs will fall to be met from the General Fund revenue account which holds a budgetary provision to meet them, should there be any.

34. 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. Proposals have been subject to Equalities Impact Assessments where appropriate.

Author: **Lynn Seward, 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) and increased income schedules (B2)
- Appendix C Fees & charges increases 2014-15
- Appendix D Statement of the Chief Financial Officer
- Appendix E Earmarked Reserves balances
- Appendix F Detailed budget analysis
- Appendix G Pay Policy Statement 2014/15

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