

REPORT TO: CABINET

DATE: 28 JANUARY 2016

TITLE: GENERAL FUND REVENUE BUDGET
2016/17

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM
(012790 446004
SIMON FREEMAN, HEAD OF FINANCE
(01279) 446228

This is a Key Decision

It is on the Forward Plan as Decision Number I004240

This decision is not subject to Call-in procedures as it 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 2016/17, as set out in Appendix A, are approved.
- B** The proposed transfers between the General Fund and Earmarked Reserves, referred to in paragraphs 19 and 24 of this report and set out in Appendix E, 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 2016/17 is set at £266.97, which represents a 1.5% increase compared to the Band D Council Tax for 2015/16.

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 2016/17 General Fund Budget is prepared in tandem with the Medium Term Financial Strategy covering the period 2016/17 to 2020/21, which 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, 2016/17, and proposes the resulting Council Tax charge required to maintain a balanced budget for the year.

GOVERNMENT GRANT

2. The Government announced the provisional figures for Formula Grant in the draft Local Government Finance Settlement released on 17 December 2015. This followed the Government's Spending Review and, whilst the settlement covers the 2016/17 financial year, it has also published indicative figures for 2017/18 – 2019/20, for which the Government has stated that Councils have an opportunity to accept these subsequent three years' figures in order to provide greater certainty in future years (although details of the conditions and process have not yet been released).
3. The Council's main Government grant funding to support General Fund services has already reduced by over 60% over the period 2011/12 to 2015/16. The latest draft figures released indicate that the Council faces further reductions of 14.2% in Government support in 2016/17. The Medium Term Financial Strategy (MTFS) deals with these funding changes and Business Rates Retention.

PROPOSED ORIGINAL GENERAL FUND ESTIMATE 2016/17

4. The Council's latest Medium Term Financial Strategy (MTFS) sets out a projection of General Fund expenditure and funding over the five-year period 2016/17 to 2020/21. The General Fund Budget for 2016/17 sets out these details for every service, so 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 higher employers' National Insurance contributions, supplier inflation and other such examples). The budget also contains the impact of the draft grant settlement referred to above.
5. In February 2015, Full Council approved the MTFS that assumes a 1.5% increase in the level of Council Tax in 2015/16 and for each year over the life of the five year Strategy. The MTFS projection identified a budget savings target for 2016/17 of £925,000. However, as a result of the changes in the draft Local Government Finance Settlement received on 17 December 2015 and other identified budget changes as part of the work carried out to develop the detailed service budgets, the funding gap has increased to £1,052,000.
6. 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 2016/17 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.

7. The table set out at Appendix A shows a summary of the Administration's proposed budget for 2016/17, together with the budget for the current year approved by Full Council in February 2015. The summary shows the budgets for each service together with other key estimate headings and contribution requirements to and from reserves.
8. The main changes in the proposed 2016/17 Budget compared with assumptions in the February 2015 MTFs are shown in Table 1.

TABLE 1 - Changes in 2016/17 Budget Compared with Assumptions in MTFS
(as originally approved in Jan 2015)

	£000s	£000s
Original MTFS Savings Target (Cabinet January 2015)		925
Decrease/ (Increase) in Grants		
Further Reduction in Revenue Support Grant		346
Council Tax Setting Changes		
Adjust from Council Tax Base		(19)
Council Tax Collection Fund Deficit		(314)
Business Rates Collection Fund Deficit		212
Identified Budget Pressures		
Pay changes over MTFS assumptions	5	
Head of Community Wellbeing transfer	94	
Employer's National Insurance increases	157	
		256
Other Changes		
Reduced Price Inflation	(11)	
Interest Changes	(95)	
Housing Benefits/ Council Tax administration subsidy	(35)	
Reduced Contract costs	(102)	
Commercial Property Income	(61)	
Car parks income	(16)	
Leah Mananing Centre	(14)	
Salary Contingency	(15)	
Other	(5)	
		(354)
Total Revised Savings Target		1,052
Financed By:-		
Efficiency Savings (Appendix B1)	874	
Income/ Recharges (Appendix B2)	178	
Total Financing		1,052

PROVISION FOR PAY AWARDS AND INFLATION

9. Provision is built into the 2016/17 budget for additional expenditure as a result of the national pay settlement providing for a 1% pay award effective from April 2016 through to March 2017. Contractual inflation has also been incorporated into the figures contained within the 2016/17 budget set out in this report.
10. 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 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.

11. Having reviewed updated comparison data that was used by the Panel last year of the allowances schemes of Essex, Herts and Audit Family Group Councils and the specific comments on the scheme from Group Leaders, after nearly one full year of operation, it is the view of all three members of the Independent Remuneration Panel that the Harlow Councillor Allowances Scheme should remain unchanged for 2016/17.
12. The Panel did note that this should not be a consistent approach in the longer term, particularly bearing in mind the comparatively low allowances paid to Harlow Councillors, and identified a risk that doing so may deter those who might wish to put themselves forward for election in the future.

Cuts in Formula Funding

13. As previously identified, the Government's reductions in the grant it provides to the Council under the Formula Funding arrangements have been reduced by over 14.2% for 2016/17. The original MTFS assumptions in February 2015 projected a reduction of 10%. The adjustment of £346,000 contained in Table 1 reflects the financial impacts of the changes in the Council's core funding.

Tax Base and Collection Fund

14. 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 a reduction to the original MTFS projected budget gap of £121,000 (£19,000 for tax base changes plus £314,000 as a result of a declared 2015/16 Council Tax Collection Fund surplus and £212,000 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 2016/17, equates to 24,419.82 equivalent Band D properties.

Council Tax

15. The MTFS presented to Full Council in February 2015 included an assumption that Council Tax increases for 2016/17 and future years would be at 1.5%. The proposed budget now includes an increase of 1.5% in Council Tax.

Income

16. 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 2016/17 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

17. Auto enrolment changes were reported as part of the 2014/15 budget setting process and are built into the Council's employee budgets in 2015/16. The impacts of the pension fund re-valuation have already been incorporated into the MTFS and Council budgets as a result of the 2013 revaluation results. The Council achieved savings against previous MTFS assumptions by exercising the ability to pay annual pension contributions in advance and the resultant savings were incorporated into the budget as part of the 2015/16 budget process. The next valuation of the fund is expected in 2016 with results impacting on the 2017/18 and future financial years. The MTFS already anticipates increased budget pressures as a result of the re-valuation to the sum of £200,000. This will be kept under review as further information becomes available over the next twelve months.

Local Council Tax Support Scheme

18. 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 its scheme for 2016/17 and has not reduced the level of funding earmarked to support it despite the reductions in formula grant imposed since the introduction of the scheme in 2013/14.

Discretionary Services Fund

19. The Discretionary Services Fund holds funding to help support the time limited funding of discretionary services to provide time to seek to identify alternative sources of finance for them and was created as a result of previous Council budget decisions.

New Homes Bonus

20. The New Homes Bonus was first introduced in 2011/12 and was treated as a windfall item in the 2011/12 budget setting process. Within the Autumn Statement, the Government has confirmed that the grant will continue indefinitely into future years but will be subject to review during 2016. It is anticipated that the method of calculation and distribution will be changed as a result of the review as will the period for which it is payable. It is anticipated that the funding period for which it is paid will reduce from six years to four and that this impact is likely to be seen in 2017/18 and 2018/19 as earlier years funding is phased out more quickly. The draft finance settlement

shows an indicative level of receipt for Harlow of £1,203,307 in 2016/17, £787,000 of which is to be contributed to the Discretionary Services Fund; the balance (estimated at £416,307) will be contributed to the Regeneration and Enterprise Reserve.

21. It is proposed that this sum contributed to the Regeneration and Enterprise Reserve will be utilised to support the non-housing assets stock condition survey, implementation of the proposed Local Authority Trading Company (LATC) and initiatives that may help to stimulate the regeneration of the Town Centre.

General Reserves

22. 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 2014/15 Final Accounts report in July 2015. The forecast has also been updated for latest budget monitoring forecasts as reported to Cabinet in December 2015.

TABLE 2 General Reserves Projection

	£millions
Uncommitted General Fund Reserve as at 1 April 2015	4.376
Carry-forward and Reserve Movements per Council/ Cabinet approvals:-	
- Budget carry-forwards from 2014/15 (approved Cabinet July 2015)	(0.224)
- Transfer to Discretionary Services Fund (approved Council July 2015)	(0.450)
- Transfer to other Reserves (Joint Finance & Performance report to Cabinet July 2015)	(0.154)
Forecast Budget Variations in 2015/16	0.255
Projected Year-end Balance 31 March 2016	3.803

23. 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 known or anticipated future risks. The General Fund balance (i.e. the uncommitted reserves) as at 31 March 2016 is currently projected at £3,803,000, and therefore above the

recommended minimum level. However, with ongoing funding reductions and significant service delivery changes taking place in areas such as the JVCo, it is prudent and advisable to be operating above the minimum recommended level.

Earmarked Reserves

24. 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, for which Full Council approval is required.

Prudential Code and Borrowing

25. 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.
26. 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 are routinely reported as part of the Treasury Management reports to Cabinet.

Council Tax

27. The proposed General Fund Budget will result in an increase of 1.5% in Harlow's element of the Council Tax for 2016/17. This includes the impact of the Collection Fund balance.
28. As part of setting the Council Tax for 2016/17, the estimated balance on the Collection Fund at 31 March 2016 has to be taken into account. Under Government regulations this had to be estimated by the Council's Head of Finance on 15 January 2016 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.

29. 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 Safety Net mechanism).
30. Taking all of these factors into account, the overall position has resulted in a projected surplus for Council Tax of £1,870,300 and a projected deficit on Business Rates of £570,023 as at 31 March 2016. The allocations of these balances are set out in the table below. Provisions for Business Rates appeals, already set aside by each of precepting authorities, are included in the figures shown (the provision being £7,040,000 as at 31 March 2015). The maximum Business Rates exposure of Harlow Council stands at £212,260. Above this level, the Council is currently protected by the Government's Safety Net mechanism, resulting in additional liability being charged back to the Government.
31. 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 2016/17

Allocation of Projected Collection Fund Balance in 2016/17	Total	Harlow DC	Essex CC	PCC for Essex	Essex Fire Authority	Government
	£000s	£000s	£000s	£000s	£000s	£000s
Council Tax	(1,870,300)	(314,680)	(1,300,100)	(176,060)	(79,460)	
Business Rates	570,020	228,010	51,300		5,700	285,010
Adjustments (Safety Net)	0	(15,750)				15,750
Total Deficit / (Surplus) to be allocated	(1,316,030)	(102,420)	(1,248,800)	(176,060)	(73,760)	300,760

(Surplus balances are shown in brackets)

32. As will be noted from the table, Harlow District Council's share of the

projected Council Tax surplus is £314,680 equivalent to a Council Tax charge of -£12.89 at band D (this compares to a £8,680 deficit for the previous year, equivalent to £0.36 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 met entirely by the Government and the National Non-Domestic Rates Pool). The combined effect of the components listed in paragraph 29, above, together with indicative collection rates, has resulted in a forecast deficit of £570,020 of which £228,010 is attributable to Harlow Council. As mentioned above, the Safety Net arrangements limit the Council's exposure to £212,260. The loss on Business Rates collection is equivalent to a Council Tax charge of £8.69 per Band D property. Combining the overall impact on the Collection Fund of Council Tax and Business Rates has resulted in a net surplus of £102,420 for Harlow, equal to a charge of -£4.19 per Band D property.

33. A meeting of Full Council is scheduled for 4 February 2016 to approve the Council's element of the Council Tax for 2016/17. 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 4 – Composition of Council Tax charge per average Band D property for each authority

	2015/16 Band D Council Tax	2016/17 Band D Council Tax	Annual Increase	Increase %
	£	£	£	
Harlow DC	263.02	266.97	3.95	1.50
Essex County Council	1,086.75	tbc	tbc	tbc
Essex Police and Crime Commissioner	147.15	tbc	tbc	tbc
Essex Fire Authority	66.42	tbc	tbc	tbc
TOTAL	1,563.34	tbc	tbc	tbc

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

LOCAL GOVERNMENT ACT AND REVIEW OF BUDGETS

34. 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.
35. 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 on-going management.

CONSULTATION

36. In formulating spending priorities reflected in the MTF5 and the 2016/17 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 2016/17 budget has presented, the proposals set out within this report represent no direct service reductions to users. The Corporate Plan 2016/17-2018/19, 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.
37. The Localism Act 2011 places a responsibility on the Council 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)

Contained within the report.

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

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: **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: **Brian Keane, 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 2016-17
- Appendix D Statement of the Chief Financial Officer
- Appendix E Projected Earmarked Reserves balances
- Appendix F Detailed budget analysis
- Appendix G Pay Policy Statement 2016/17

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