

REPORT TO: CABINET

DATE: 26 JANUARY 2017

TITLE: GENERAL FUND REVENUE BUDGET
2017/18

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS,
PORTFOLIO HOLDER FOR RESOURCES

LEAD OFFICERS: CORPORATE MANAGEMENT TEAM
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This is a Key Decision

It is on the Forward Plan as Decision Number I005992

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

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 2017/18, as set out in Appendix A, are approved.
- B** The proposed transfers between the General Fund and Earmarked Reserves, referred to in paragraphs 20 and 24 of this report and set out in Appendix C, are approved.
- C** The proposed Fees and Charges, as set out in Appendix E, are approved.
- D** The Pay Policy Statement, as set out in Appendix G, is approved.
- E** The Council's Band D Council Tax for 2017/18 is set at £272.28, which represents a 1.99% increase compared to the Band D Council Tax for 2016/17.

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 2017/18 General Fund Budget is prepared alongside the Medium Term Financial Strategy covering the period 2017/18 to 2021/22, 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 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, has 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 in order to provide greater certainty in future years. At its meeting on 13 October 2016, the Cabinet resolved to accept the four-year local government funding settlement on the basis of it minimising the risk of further funding reductions in the remaining years of its MTFS.
3. The Council's main Government grant funding to support General Fund services has already reduced by over 50 percent over the period 2013/14 to 2016/17. The settlement applied to the Council for 2017/18 indicates that the Council faces further reduction of 15.9 percent in Government support. The MTFS (considered earlier in the agenda) considers the impact of these funding changes and Business Rates Retention.

Proposed Original General Fund Estimate 2017/18

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 2017/18 to 2021/22. The General Fund Budget for 2017/18 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 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 2016, Full Council approved the MTFS that assumes a 1.5 percent increase in the level of Council Tax in 2016/17 and for each year over the life of the five-year Strategy. The MTFS projection at that point in time identified a budget savings target for 2017/18 of £1,425,000. However the 2017 MTFS, set out earlier in this agenda, identifies a required increase in Council Tax from 2017/18, and subsequent years, of 1.99 percent. As a result of this, as well as the Council's adoption of the four-year Government funding settlement, offset by a reduction in the annual New Homes Bonus grant paid by Government, the funding gap to be achieved in 2017/18 was revised to £1,346,000.

6. Cabinet will recall the Chancellor's Autumn Statement placed before Parliament in 2015, which announced continued deep cuts in future years' public sector expenditure. Following the latest Statement, delivered in November 2016, the Government provided no respite from the austerity stream reducing councils' budgets although, in seeking to re-align its fiscal stance, there were no new shocks to local council finances. This highlights the importance given by Officers, working closely with the Administration, to develop a balanced budget proposal for 2017/18 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 has already become extremely difficult. The MTFS report identifies this as a key issue and growing risk for the Council in future years and also highlights that, whilst financing of the budget becomes even tighter and more volatile, 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 2017/18, together with the budget for the current year approved by Full Council in February 2016. 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 2017/18 Budget compared with assumptions in the February 2016 MTFS are shown in Table 1 (see overleaf).

TABLE 1 - Changes in 2017/18 Budget Compared with Assumptions in MTFS
(as originally approved in February 2016)

	£000s	£000s
Original MTFS Savings Target (Council February 2016)		1,425
Decrease/ (Increase) in Grants		
Revenue Support Grant		(4)
Council Tax Setting Changes		
Adjust from Council Tax Base		(179)
Identified Budget Pressures		
Partial transfer of Community Safety Team	250	
Business Rates Relief	50	
Harlow 70th Anniversary	20	
Support to the Arts	20	340
Other Changes		
Reduced impact of Salary increases	(23)	
Additional Price Inflation	82	
Pension fund re-valuation	(1)	
Redundancy costs provision	(50)	
Interest costs	(265)	
HB/ Council Tax admin subsidy	(50)	
Capital funding (MRP Provision)	11	(296)
Total Revised Savings Target		1,286
Financed By:-		
Efficiency Savings (Appendix B1)	1,120	
Income/ Recharges (Appendix B2)	166	
Total Financing		1,286

Provision for Pay Awards and Inflation

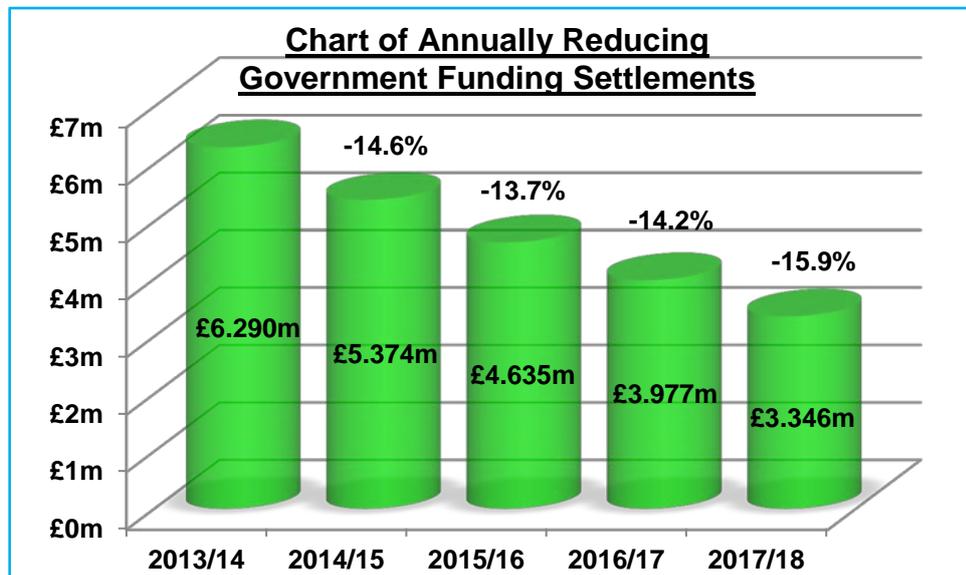
9. Following the Government's announcement that it will only fund public sector workforces for a pay award of one percent for four years from 2016-17 onwards, provision is built into the 2017/18 budget for additional expenditure as a result of the capped national pay settlement at one percent. Contractual inflation has also been incorporated into the figures contained within the 2017/18 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. 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 Independent Remuneration 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 2017/18.
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 the Council's 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 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 2017/18 budget places a reduction in Government grant of nearly £631,000, equating to a cut of 15.9 percent 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 and the scope for year-on-year income variations has become volatile 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 £179,000 as a result of a declared 2016/17 Council Tax Collection Fund surplus. The tax base, for the purpose of computing the average Band D Council Tax in 2017/18, equates to 25,032.14 equivalent Band D properties. Meanwhile, the deficit of £218,238 attributable to Business Rates Collection and falling upon the General Fund is limited by the Government's safety net mechanism. In view of the extreme volatility of collectable Business Rates and in order to mitigate against future adverse variations in Business Rates collection, a transfer of £266,320 to the Business Rates Equalisation Reserve is proposed to be made within Paragraph 23 of this report (as included within Table 3).

Council Tax

15. The MTFS presented to Full Council in February 2016 included an assumption that Council Tax increases for 2017/18 and future years would be at 1.5 percent. The proposed budget now includes an increase of 1.99 percent in Council Tax for 2017/18.

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 2017/18 budget setting process income has been reviewed and the income budgets for next year will be increased in line with Appendix B2 and the agreed increases to fees and charges set out in Appendix E to this report.

Pension Contributions

17. Since 2014/15, the impact of auto enrolment changes have been built into the annual budget setting process and added into the Council's employee budgets. Furthermore, following the 2016 revaluation of the pension fund, the employer's pension fund contribution rate has increased from an average of 14.6 percent to 16.3 percent, a movement of 1.7 percent. The new higher contribution rate has been incorporated into the MTFS and Council's 2017/18 budget, generating a pressure of nearly £140,000 on the General Fund. Meanwhile, the Council has achieved savings since 2015/16 against previous MTFS assumptions by exercising the ability to pay annual pension contributions in advance. The latest valuation of the pension fund has, once again, provided an opportunity to extend the advantage of this saving amounting to £70,800 in 2017/18, which is incorporated into the 2017/18 budget and taken account of in future financial years in the MTFS.

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 quantifiable in 2013/14. Since that time, it has been included within the Revenue Support Grant, which has continued to reduce year on year. The Council has agreed to leave the Scheme unchanged for 2017/18, but equally 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 opportunity to identify alternative means of provision and/or sources of finance for these popular services and was created as a result of previous Council budget decisions. The fund continues to provide financing throughout the 2017/18 budget, and its continuation has been notably supported by the allocation of New Homes Bonus grant and dividend payments from Kier Harlow Ltd to top up the fund.

New Homes Bonus

20. The New Homes Bonus (NHB) was first introduced in 2011/12 and was treated as a windfall item in the 2011/12 budget setting process. The grant has been subjected to a Government review in 2016. As a consequence of the 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 has reduced from six years to five, with a further reduction to four years in 2018/19 expected. This reduction in the funding period has resulted in an immediate impact in 2017/18, as previous years' funding is phased out more quickly. In last year's Funding Settlement, the Government projected that the Council's NHB could be worth £1.66million in 2017/18. In this year's finance settlement, the Government has scaled this back to an indicative level of receipt for the Council of £889,000 in 2017/18. Of this sum, £721,000 is proposed to be contributed to the Discretionary Services Fund in 2017/18 (see paragraph 19).
21. In line with previous Cabinet approvals, the balance of NHB (indicated at approximately £168,000) will be contributed to the Regeneration and Enterprise Reserve, in the same way as last year, in order to support town centre 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 Fund Reserve is set out in Table 2. 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 2015/16 Final Accounts report in July 2016. The forecast has also been updated for latest budget monitoring forecasts as reported to Cabinet in December 2016.

TABLE 2 General Reserves Projection

	£millions
Uncommitted General Fund Reserve as at 1 April 2016	3.888
Carry-forward and Reserve Movements per Council/ Cabinet approvals:-	
- Budget carry-forwards from 2015/16 (approved Cabinet July 2016)	(0.137)
Forecast Budget Variations in 2016/17	0.590
Projected Year-end Balance 31 March 2017	4.341

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 the known or anticipated future risks. The General Fund balance (i.e. the uncommitted reserves) as at 31 March 2017 is currently projected at £4,341,000, and therefore above the recommended minimum level. However, with ongoing funding reductions and significant service delivery changes taking place in areas such as the Council's new company, HTS (Property & Environment) Limited, it is prudent and advisable to be operating with uncommitted reserves at this level above the recommended minimum.

Earmarked Reserves

24. The Council holds a number of earmarked reserves and, as set out in Paragraph 19 of 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. The reserve will also provide financial support to services such as the Playhouse, providing further time to consider options for their future delivery. Table 3 provides a summary of the proposed movements for each of 2016/17 (latest revision to the original budget) and 2017/18 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 3 – Summary of Proposed Movements on Earmarked Reserves

Earmarked Reserves	Net Movement To/ (From) Reserves		Details
	2016/17 Revised £	2017/18 Original Budget £	
Perpetuity Reserves	2,485	(1,000)	Routine property maintenance funding obligations.
Debt Financing Reserve	105,210	237,840	Set aside for debt financing costs; 2016/17 includes £132k use of reserve to finance non-housing stock condiation survey.
Discretionary Services Fund	(806,527)	(732,480)	Drawn down to cover cost of discretionary services, net of NHB grant.
Environment Reserve (previously Energy Fund)	730	4,270	Reserve replenishment programme and interest allocation.
Insurance claims - GF	50,000	50,000	Self-insurance.
Insurance Fund - GF (see Note 4.)	(4,610)	(6,160)	Self-insurance.
Invest To Save & Improve Reserve - see Note 5.	(184,070)	(23,910)	Utilised for investment in HTS
Business Rates Equalisation Reserve	0	266,320	Set aside to help mitigate future Collection Fund deficit stemming from volatility in funding caused by the new Business rates Retention scheme.
Planning Reserve	(75,000)	(60,000)	Applied for Local Development Framework
Regeneration & Enterprise Reserve	216,306	168,490	Indicative NHB balances set aside for town development.

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 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 limited scope for asset disposals, 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 1.99 percent in Harlow's element of the Council Tax for 2017/18. This includes the impact of the Collection Fund balance.
28. As part of setting the Council Tax for 2017/18, the estimated balance on the Collection Fund at 31 March 2017 has to be taken into account. Under Government regulations this had to be estimated by the Council's Head of Finance on 15 January 2017 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 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 Government's Safety Net mechanism).
30. Taking all of these factors into account, the overall position has resulted in a projected surplus for Council Tax of £1,891,957 and a projected deficit on Business Rates of £4,266,272 as at 31 March 2017. 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 £5,195,170 as at 31 March 2016) for March 2016. The maximum Business Rates exposure of the Council stands at £218,238. 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 4 shows this allocation.

TABLE 4 - Allocation of Projected Collection Fund Balance in 2016/17

Allocation of Projected Collection Fund Balance in 2017/18	Total £000s	Harlow DC £000s	Essex CC £000s	PCC for Essex £000s	Essex Fire Authority £000s	Government £000s
Council Tax	(1,891,957)	(312,362)	(1,322,478)	(177,844)	(79,273)	
Business Rates	4,266,272	1,706,509	383,964		42,663	2,133,136
Adjustments (Safety Net)	0	(1,488,271)				1,488,271
Total Deficit / (Surplus) to be allocated	2,374,315	(94,124)	(938,514)	(177,844)	(36,610)	3,621,407

Note: Surplus Balances are shown in brackets ()

32. As will be noted from the table, the Council's share of the projected Council Tax surplus is £312,362 equivalent to a Council Tax charge of -£12.48 at band D (this compares to a £314,680 deficit for the previous year, equivalent to -£12.89 for a Band D property). However, under the new Business Rates Retention Scheme, the 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 £4,266,272 of which £1,706,509 is attributable to the Council. As mentioned above, the safety net arrangements limit the Council's exposure to £218,238. The loss on Business Rates collection is equivalent to a Council Tax charge of £8.72 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 £94,124 for the Council, equal to a charge of -£3.76 per Band D property.
33. A meeting of Full Council is scheduled for 23 February 2017 to approve the Council's element of the Council Tax for 2017/18. 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

	2016/17 Band D Council Tax	2017/18 Band D Council Tax	Annual Increase	Increase %
	£	£	£	
Harlow DC	266.97	272.28	5.31	1.99
Essex County Council	1,130.13	tbc	tbc	tbc
Essex Police and Crime Commissioner	152.10	tbc	tbc	tbc
Essex Fire Authority	67.68	tbc	tbc	tbc
TOTAL	1,616.88	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

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 MTFS and the 2017/18 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 2017/18 budget has presented, the proposals set out within this report represent no direct service reductions to users. The Corporate Plan 2017/18-2012/20, featuring elsewhere on the 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.

37. 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)

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 – Projected Earmarked Reserves balances

Appendix D – Statement of the Chief Financial Officer

Appendix E – Fees & charges increases 2017-18

Appendix F – Detailed budget analysis

Appendix G – Pay Policy Statement 2017/18

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
HCA	Homes and Communities Agency
HRA	Housing Revenue Account
HTS	Harlow Trading Services
LATC	Local Authority Trading Company
MRP	Minimum Revenue Provision
MTFS	Medium Term Financial Strategy
NHCP	Non-Housing Capital Programme
NHB	New Homes Bonus