

**REPORT TO:** POLICY AND RESOURCES COMMITTEE  
**DATE:** 10 FEBRUARY 2005  
**TITLE:** GENERAL FUND BUDGET 2005/06 AND REVISED  
2004/05  
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## **SUMMARY**

- 1 This report proposes the General Fund Budget for 2005/06 prepared in accordance with the all party recommendation from the Recovery Working Group. The proposed budget would result in a 3.9% increase in Harlow Council's element of the Council Tax. The report also includes revised estimates for the current financial year 2004/05.

## **RECOMMENDED TO COUNCIL that**

- A The revised General Fund estimates for 2004/05 as set out in appendix D and summarised in paragraphs 4 and 5 are approved.
- B The proposed General Fund estimates for 2005/06 as set out in Appendices A, B and C and summarized in paragraph 6 are approved.
- C That an application is made to the Secretary of State for approval to transfer the maximum transitional amount of £1,730,000 from the Housing Revenue Account to the General Fund in 2005/06.
- D The transfer of £90,000 from the Housing Revenue Account to the General Fund for 2005/06 in respect of incentive areas of housing benefit.

## **GENERAL FUND BUDGET SUMMARY**

- 2 Appendix A shows a summary of the proposed budget for 2005/06 and revised estimates for 2004/05 for each Committee together with key estimate headings and contribution requirement from reserves.

## **GOVERNMENT GRANTS AND OTHER CHANGES**

- 3 The Government's final proposals for grants to local authorities were announced on 27 January 2005. The Government's final decision is expected to be approved by Parliament on 3 February. These estimates assume that the final decision does not materially change the proposals for Harlow. Announcement of planning delivery grant for 2005/06 is expected in February and the proposed budget includes an estimate of the grant and corresponding expenditure.

## REVISED GENERAL FUND ESTIMATE 2004 / 05

4 Revised estimates for the current year were reported to the Committee on 18 November 2004. In general the estimates have not been changed since that date. However, as reported at that time, the allocations of central costs have now been brought up to date. The original budget was £13.691m. In November a revised net budget of £13.883m was reported. The latest estimate is £13.834m representing an increase from the original estimate of £143k including carry overs.

5	A summary of changes is as follows:	£,000
	Carry overs from 2003/04	290
	Other changes reported in November	- 98
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	net variation reported November	192
	increased housing benefit subsidy	- 80
	other net changes in latest figures	31
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	Total change original estimate to latest revised	143

## PROPOSED ORIGINAL GENERAL FUND ESTIMATE 2005 / 06

6 The proposed estimates for 2005/06 show a net expenditure of £14,063k. A summary of the changes from the original General Fund estimate for 2004/05 to the proposed estimate for 2005/06 is as follows :-

	£,000	£,000
2004/05 budget		13,691
Unavoidable growth and increased costs (Appendix B)	3,111	
Proposed growth in priority areas (Appendix B)	421	
Priority savings (appendix C)	- 1,244	
Efficiency and other savings (appendix C)	- 1,781	
Fees and charges and other changes in income	- 41	
Net effect of recharges to HRA and other changes	- 94	
		372
		-----
		14,063

## CONTINGENCY AND PROVISION FOR PAY AWARDS

7 The Council is required to include in the budget a provision for increased costs and the additional expenditure which may be expected during the coming year. The largest element of this is the provision for pay awards from 1 April 2005. Pay awards are negotiated nationally and for most of the Council's staff a three-year agreement was reached in 2004 covering the period 2004 to 2006. The increase at 1 April 2005 under this agreement will be 2.95% and the estimates include provision for this increase, including an assumption that the same level of increase will apply to other staff covered by other pay negotiations.

- 8 The proposed budget includes a 4% staff vacancy factor which equates to a saving of £600,000. This is a significant reduction on the unidentified savings target included in this years budget and is in line with best practice which indicates that a staff vacancy factor of between 2 and 4% is acceptable.
- 9 Provision has also been included in individual budgets for increases in costs of business rates and other specific known increases in costs. Budgets have not in general been increased to allow for other inflationary increases in costs which managers have been instructed to meet within the previous cash ceiling.
- 10 Appendix A includes a contingency sum of £230,000. This is made up of £50,000 which is a standard sum to offset any unforeseen price increases and a provision of £160,000. The latter provision is equivalent to a vacancy factor of 1% as the budgets were originally drafted for a 5% vacancy factor and it has not been possible to incorporate this into the Committee budgets as shown, in order to meet this Committee report deadline.

### **TRANSFER FROM HOUSING REVENUE ACCOUNT (HRA)**

- 11 The Council was required by the Local Government and Housing Act 1989 to make transfers from the HRA to the general fund from 1996/97 to 2000/01. This transfer was calculated based on the housing subsidy regulations and referred to as the 'negative subsidy' transfer. From 1 April 2001, the Government changed the rules about housing accounting and housing subsidy. As a result, Harlow again received housing subsidy and no compulsory transfer from the HRA to the general fund was required.
- 12 To assist authorities like Harlow for which this change had a very large impact on the General Fund, the Government allowed discretionary transfers to take place from the HRA to the General Fund. These transfers are limited to a proportion of the transfer in 1999/2000. For next year, the maximum transfer will be 50% of the amount in 1999/2000 and this proportion will reduce to 40% in 2006/07, 30% in the next year and so on until the permission to transfer ends in 2011/12. From 2004/05 the Government has met two thirds of the cost of this transfer by an addition to the Council's housing subsidy.
- 13 It is necessary for the Council to make a formal application to the Secretary of State for approval to do this. The proposed General Fund budget for 2005/06 is based on the Council making the maximum permitted transfer and the Committee is recommended to approve the application for approval for this.

### **PENSION FUND CONTRIBUTIONS**

- 14 The Council and its employees contribute to the Essex County Council pension fund in accordance with the statutory scheme for local government pensions. This is a defined benefit scheme and so the employer must make up any shortfall arising from less than expected performance of investments and other factors, such as increased life expectancy.
- 15 The fund is revalued every three years and the result of the most recent revaluation, at 31 March 2004, is now known and will determine employer contributions for the three years 2005/06 to 2007/08. The deficit attributed to Harlow Council at March 2004 is £38.555m.

- 16 The County Council, working with the fund's actuaries, has provided a number of possible options to employers for meeting this deficit. The most advantageous to Harlow Council is to set contributions to recover the deficit over a 20 year period, the increase to the new level of contributions being phased over three years. The budget is based on this proposal which has still to be formally approved by the County Council and the actuary. The result is an increase of £200,000 in 2005/06, as shown in the unavoidable growth list, but greater increases in 2006/07 and 2007/08.

### **HOUSING BENEFIT TRANSFERS**

- 17 From 1 April 2004 the cost of rent rebates (i.e. housing benefit for Council tenants) is no longer charged to the HRA. Instead, the cost and associated subsidy, must be included in the General Fund.
- 18 Two further changes arise as a consequence of this transfer of rebates to the General Fund :-
- a) Housing benefit subsidy is reduced because Harlow's rents were set in the past above the Government guideline level. The Council is required to transfer the cost of this subsidy reduction from the General Fund to the Housing Revenue Account.
  - b) Housing benefit subsidy is also adjusted as a result of 'incentive' areas designed to reduce the level of fraud and error. The Council has discretion to transfer from the Housing Revenue Account to the General Fund an amount to reflect the cost of these incentive areas in relation to housing tenants. The maximum transfer is 50% of the audited cost of incentive adjustments for rent rebates in 2001/02. This option is being phased out over 2 years of which 2005/06 is the last year. The Housing Committee will be considering the Housing Revenue Account for 2005/06 at its meeting being held on 3 February, and it is proposed to approve the maximum transfer of £90,000. This Committee is asked to approve this amount subject to any alternative views of the Housing Committee.

### **RESERVES**

- 19 A review of reserves is set out in a separate report to this Committee. The Council's uncommitted general fund reserves at 31 March 2004 were £2,413k.
- 20 Forecast changes based on the attached estimates are as follows :-

	£,000
Reserves at 1 April 2004	2,413
Planned use of reserves in 2004/05	- 394
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Estimated reserves at 1 April 2005	2,019
Proposed budget 2005/06:-	
Local Plan costs carried over from 2004/05	- 79

Corporate Projects Service	- 69
Building Control, one off contract payments	- 15
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Estimated reserves at 31 March 2006	1,856

## **FEES AND CHARGES**

- 21 The proposed General Fund estimates include increased income from fees and charges which are the subject of a separate report to this Committee.

## **PRUDENTIAL CODE AND BORROWING**

- 22 A report on the new Code was circulated to the Resources Committee in November 2003. Since 2000, the Council has been 'debt free' and gained benefits from this position, mainly from being able to use all of its capital receipts to finance the capital programme. From 1 April 2004 the Council has been in the same position as other authorities and the benefits of 'debt free' status ended except for a transitional period of three years during which the Council will retain part of the capital receipts which would otherwise be subject to pooling. This transitional relief is not conditional on the Council remaining debt free.
- 23 The Council may decide to borrow to fund its capital programme. However, this must be done on the basis of the Prudential Code of Borrowing published by Chartered Institute of Public Finance and Accountancy. Borrowing must be affordable on the basis of the impact of the cost of borrowing on the Council's revenue budgets.
- 24 The Council's proposed capital programme will be recommended to this Committee at its meeting being held on 24 March 2005, in order to enable prioritization in accordance with the Corporate Plan and the Medium Term Financial Strategy, which are subject to separate reports to this Committee.
- 25 The proposed general fund budget makes no provision for the interest cost (or reduced investment income) which would result from the use of borrowing to fund capital expenditure.

## **COUNCIL TAX**

- 26 The proposed General Fund estimate will result in a 3.9% increase in Harlow's element of the Council Tax for 2005/06. This includes the effect of the collection fund position shown in a separate report to this Committee.
- 27 The Committee should be aware that the Government has issued advice to local authorities that Council Tax increases should be restricted to "low single figures" and that capping powers will be used if authorities unreasonably exceed this guideline.
- 28 The total level of Council Tax will depend on decisions by the County Council, and the Police and Fire Authorities, which are expected by 16 February 2005. A Special Council meeting has been scheduled for 17 February 2005 to determine the Council Tax for 2005/06.

## LOCAL GOVERNMENT ACT AND REVIEW OF BUDGETS

- 29 The Committee may be aware that the Local Government Act 2003 (Part 2) has placed further requirements on local authorities' financial management, in particular :-
- a) to consider each year a report on the authority's reserves,
  - b) to 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, and
  - c) to monitor expenditure and income during the year and to take steps to correct any departures from planned outcomes.
- 30 The Council's reserves position is set out in a separate report to this Committee. This report concludes that the current level of reserves, and the proposed use of reserves to support the general fund budget in 2005/06, is reasonable.
- 31 In considering the robustness of the estimates, officers believe that they are based on reasonable assumptions about future costs and income. The major assumptions are :-
- a) Provision for salary increase for staff at 2.95% from 1 April 2005. Officers believe this is a reasonable assumption and that any variation is likely to be modest.
  - b) Income from fees and charges is based on current levels of demand and allows for increases as set out in the separate report. An assumption has been made of income from the new Civic Centre car park which may be variable due to the limited experience of running costs and income.
  - c) Services continue throughout 2005/06 without major interruption from natural disasters, major fraud or legal claims against the Council or breakdowns of major infrastructure. The Council continues to develop its risk management strategy, corporate governance and internal controls to minimize these risks, but risks can never be entirely eliminated.
  - d) Reasonable assumptions have been made about the level of Government grants which will be paid to the Council during the year, and no major revision to these grants is made.
  - e) The budget includes an estimate of £250,000 income from the Local Authority Business Growth Incentive Scheme (LABGI). This is a new scheme starting in 2005/06. The income will be dependant on the total business rates valuation for the area at 31 December 2005 compared with 31 December 2004 (excluding the effect of appeals). It is difficult to forecast changes in business rates valuations Total income to the Council under the scheme could vary from nil to £350,000. Officers' view is that the estimate is reasonable and is consistent with past changes in business rates valuations.

- f) The Council's insurance arrangements are in the process of re-tendering with effect from 1 April 2005. The budget includes provision for a reduction in overall premiums in line with experience for the current year but also a significant reduction to reflect the transfer of highways agency to Essex County from 1 April 2005. This will not be certain until the new contract is agreed.
- 32 The Council has continued to develop its budget monitoring systems during the current year, and will continue to do so during 2005/06. This helps to ensure that unexpected variations in expenditure and income are identified promptly and remedial action taken when possible.
- 33 In contrast to previous years there is no element of 'unidentified savings' in the proposed budget for 2005/06. However, efficiency savings of £250,000 are included which will have to be achieved during the year and salary estimates include an assumed vacancy rate of 4%.

## **IMPLICATIONS**

### **Social Inclusion**

No specific implications have been identified (Author Ken Smith)

### **Equal Opportunities**

No specific implications identified (Author Ken Smith)

### **Finance**

Implications are contained in the report (Author Ken Smith)

### **Personnel**

Some savings proposals require job losses. There may be a requirement for redundancies in some cases but the number cannot be determined until consultations have been concluded (Author Graham Branchett)

### **IT**

No specific implications identified (Author Mark Brett)

### **Legal**

No specific implications identified (Author Owen Willcox)

### **Sustainability**

No specific implications identified (Author Ken Smith)

### **Community Safety**

No specific implications identified (Author Ken Smith)

## **BACKGROUND PAPERS**

Government notification of final grant proposals dated 27 January 2005