

In considering the levels of expenditure within the revenue estimates (and use of reserves) for 2011/2012 and future years, it is important that Cabinet consider the levels of risk which could affect the spending profile during the year:

- **Budget Variations Generally**

The Council has had a good record of keeping revenue expenditure within budget, although this has become increasingly demanding. Budget monitoring for 2010/2011 suggests that there will be a £300K overspend which is not due to one off pressures but needs to be factored into future years base budgets. The biggest risks for 2011/2012 onwards relates to the achievement of the proposed £3.3m of efficiency savings identified to date. If these are not achieved (or not achieved within the assumed profile) then variations to the budget will arise. It is essential therefore that sufficient levels of working balances/general reserves are retained to cover this key risk. A 1% budget variation equates to approximately £170K.

- **Pay Inflation**

The draft estimates have been prepared on the following basis:

2010/2011 – no provision for a general pay award

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- £40K provision for a £250 per employee award to those earning below £21K per annum

2012/2013 – a general provision for a 2% pay award (£320K)

2013/2014 – a general provision for a 3% pay award (£480K)

2014/2015 – a general provision for a 2% pay award (£330K)

The financial years 2010/2014 have made full allowance for profiled annual increments where applicable (and geared to the council's pay model). For 2014/2015 (which is outside the pay model perspective), no allowance for further increments has been made.

- **Price Inflation**

The current Consumer Price Index (CPI) for November 2010 is showing a year on year increase of 3.4% and an RPI increase of 4.7%. The main components of these increases comprise food, fuel/energy and the effect of the 'depreciation' of sterling which has resulted in all imports being more expensive. The Bank of England anticipate that this high level of increase will not reduce over the following 12 months and will then fall (around April 2012) to an underlying 2%. The Bank's record has not been particularly impressive over the past two years and there are alternate views that inflation will remain higher than this forecast. It is important that Watford seek to cash limit many of its budgets wherever possible (even if this results in a reduction in the volumes of its purchases). For the purposes of detailed estimate preparation price inflation has been applied to fuel/energy and where outsourced contracts require an automatic inflation uplift. Apart from these factors, Heads of Service are being required to accommodate any other price inflationary effects. A general provision of £100K has been included within the 2011/2012 estimates which could be accessed in exceptional circumstances should a compelling case be made for a cost centre increase.

- **Investment Interest**

The draft estimates for 2011/2012 and future years have been reduced significantly to reflect the prevailing low level of interest rates. Whilst these rates

are expected to increase over the four year period, the Council is anticipating using much of its cash balances in financing its capital programme. In these circumstances it would be unlikely to see levels of investment interest increase to former levels. The 2011/2012 draft estimates includes £346K of investment interest geared to an average rate of interest of 1.3%. Should the treasury management function under perform by (say) 0.25% then investment interest would fall by £67K.

- **Commercial Rents**

The Budget for 2011/2012 needs to take into account two factors. Firstly, there will be the positive effect of the full year rent income from the former Woolworth's premises and this has been factored into the base estimates. There is however, the potential adverse impact of increased vacancy levels across the commercial property portfolio and, in particular, those rentals at Charter Place. Whilst the draft Heads of Terms with the Council's development partner (London and Regional) has sought to protect current levels of income, this has yet to be formally signed. At the same time a number of leases are due for re-negotiation during 2011/2012. Commercial rent income at Charter Place is circa £2.2m and an increase in vacancy levels of 10% (currently fully occupied) would add a £200K budgetary pressure.

- **Housing Benefit Payments/Subsidy**

The strict requirements placed on external auditors by the Department of Work and Pensions, coupled with the highly complex nature of the benefits legislation, pose a risk to the Council's ability to recover all its costs. Consequently, a large provision against withheld subsidy should continue to be maintained at a minimum level of £200K. To some extent this reduces the potential for additional costs. There is, however, a further factor relating to the proposed changes to welfare benefits proposed to be introduced by Central Government. The effect upon local authorities is difficult to evaluate at the present time, but Watford currently pays out £35m of housing and council tax benefit on behalf of the Government and a 1% variation in funding arrangements would equate to a £350K budget variation. This is further compounded by the increasing caseloads falling upon local authorities as a consequence of increasing unemployment. In 2010/2011, additional administrations costs of £200K has needed to be financed by Watford in order to maintain an acceptable service to its customer base. This level of additional resource has not been assumed to be required in 2011/2012 and future years. The housing benefit service undoubtedly presents the highest risk for potential over spends in 2011/2012 and future years.

- **Concessionary Fares**

This service has now been transferred with effect from 1 April 2011 to the Herts County Council (and onerous financial adjustments have been made to Watford Council's budgets). There is, however, a continued risk that these adjustments will be revisited by Government in the light of the 2010/2011 final cost of this service and, were this to occur, then further government grant could transfer from Watford to HCC. This is because half year forecasts of the number of concessionary trips within Watford has exceeded the original forecast. The extent of further grant losses as a consequence could feasibly equate to circa £200K (but might be mitigated in the short term through Watford being protected through the government grant floor protection scheme where our grant losses in 2011/2012 is close to the maximum permissible.) The final adjustments relating to concessionary fares do, however, need to be closely monitored.

- **Shared Services**
 The shared services draft capital and revenue budgets have included further efficiency savings and which have been included with Watford's estimates for the next four years. Failure of shared services to deliver on these savings by (say 25%) would place a £85K budget pressure upon Watford during the four year period.
- **The Economic Downturn**
 The impact of the current economic downturn has already been reflected within the detailed estimates in relation to interest receipts, fees and charges and commercial rents. Depending on the impact in Watford, there may well be increased demands on Council services such as assistance to the homeless or increased applications for housing benefit (referred to earlier). Reduced collection of business rates due to bankruptcies will fall on the central government national pool. Increases in council tax write-offs will fall on the Collection Fund in due course and the 2011/2012 estimates has assumed a reduced collection level of 97.5% (compared to 98% in the current year).
- **Revenue Support Formula Grant**
 The Government has not yet finalised the Settlement and there could be some changes to Formula Grant entitlement in the final announcement. In past years variations have been very minor but this should not be assumed to continue.
- **Risk Registers** – cover all the Council's functions.
 There are no significant risks that would require additional resources.
- **Bellwin Scheme**
 In the event of a natural disaster or other emergency outside the Council's control, the Council might be eligible for government assistance under the Bellwin Scheme. The Council is required to meet part of any emergency costs, at least to the extent of 0.2% of its budget. This is currently equivalent to around £32K. In practice, Councils often find that not all costs are deemed eligible for assistance and this needs to be borne in mind in the overall assessment, although this more often applies to capital works than revenue costs.
- **Legal Challenge**
 It continues to be appropriate to take account of the risk of legal cases being brought against the Council. As there is no budget provision for court costs, there will always be a risk of costs arising and even if the Council is successful, costs are not always recoverable. It is difficult to anticipate the quantum of any potential legal challenge which would need to be assessed on an individual case basis.
- **Capital Programme**
 The draft capital budget shows that there are adequate receipts to meet any likely variation in the cost of schemes in the programme. There are a few significant projects within the capital programme such as the cultural quarter, health campus, and Charter Place which could require major revision. Any risks associated with these projects would have to be evaluated at the appropriate time.