



BUDGET PANEL

Wednesday 15th January 2014

CABINET

Monday 20th January 2014

COUNCIL

Wednesday 29th January 2014

CONTACT

If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock or Pat Thornton in Democracy and Governance on 01923 278377 / 01923 278372 or by email to

legalanddemocratic@watford.gov.uk .

COMMITTEE MEMBERSHIP

Councillor J Dhindsa (Chair)

Councillor S Rackett (Vice-Chair)

Councillors J Aron, S Counter, G Derbyshire, S Greenslade, R Martins, P Taylor and M Turmaine

AGENDA

PART A - OPEN TO THE PUBLIC

5. FINANCIAL PLANNING: DRAFT REVENUE AND CAPITAL ESTIMATES 2014 - 2018 & TREASURY MANAGEMENT STRATEGY 2014 -2017 (Pages 1 - 56)

The Panel is requested to consider the Cabinet report and provide any observations to enable Cabinet to make its decisions.

The Cabinet report has been circulated separately.

Part A

Report to: Cabinet
Date of meeting: 20 January 2014
Report of: Finance Shared Services
Title: Financial Planning - Draft Revenue and Capital Estimates 2014-2018 and the Treasury Management Strategy 2014-17

1.0 SUMMARY

1.1 The purpose of this report is to enable the Cabinet to consider service level expenditure, funding and council tax levels for the medium term 2014/15 to 2017/18, including consideration of the use of reserves and balances. This budget is a component part of the 2014/15 Council Tax calculations.

1.2 The report sets out:

- the draft revenue estimates for the period 2014-18
- the draft capital programme for the period 2014-18
- the Treasury Management Strategy 2014-17

1.3 The Cabinet is recommended to agree the Council Tax Base to apply for 2014/15.

1.4 The report includes advice from the Director of Finance on the adequacy of general reserves and balances in the context of the four year planning horizon 2014-2018. (see paragraph 7.8)

2.0 RECOMMENDATIONS

That Cabinet

2.1 Resolves in accordance with the *Local Authorities (Calculation of Tax Base) Regulations 1992*, the amount calculated by Watford Borough Council as its Council Tax Base for the year 2014/2015 is 30,112.10 as outlined in paragraph 7.5 and summarised at Appendix 7

2.2 Approves the estimate of surplus and deficit position on the Collection Fund.

2.3 Approves the 2014/15 savings of £754,970 as detailed at Appendix 1.

2.4 Approves the 2014/15 growth of £139,280 and as detailed at Appendix 2.

2.5 Approves the proposed increases in fees and charges as detailed at Appendix 4

2.6 Approves all the assumptions made within the Medium Term Financial Strategy at Appendix 5 which includes a council tax freeze for 2014/2015.

That Council be recommended to approve

- 2.7 The General Fund Budget Requirement for 2014/2015 of £14,313,080 (before use of grants and reserves) and as outlined at paragraph 7.1
- 2.8 The Capital Programme as set out at Appendix 10.
- 2.9 The financial risks and the level of reserves and balances (Appendices 8 & 9 refer).
- 2.10 The existing Local Council Tax Reduction Scheme to continue from 1 April 2014 (paragraph 7.6.4 refers)
- 2.11 The Treasury Management Strategy for 2014-2017 as set out in Appendix 11.
- 2.12 To delegate to the Director of Finance and Portfolio Holder the ability to amend the budget figures in accordance with decisions taken at the Cabinet meeting and any minor variations that may occur before the Council meeting on 29th January 2014.

Contact Officers:

For further information on this report please contact:-

Revenue - Nigel Pollard – Finance Manager, telephone 01923 727 198
Email nigel.pollard@threerivers.gov.uk

Capital - Richard Hammerman – Senior Accountant, telephone 01923 727 440
Email richard.hammerman@threerivers.gov.uk

Treasury - Stephen Exton – Finance Manager, telephone 01923 727 197
Email stephen.exton@threerivers.gov.uk

Report approved by Joanne Wagstaffe, Director of Finance.

FINANCIAL PLANNING – REVENUE SERVICES

3.0 INTRODUCTION

3.1 The preparation of the 2014/2015 budget has been completed against a backdrop of further cuts in Government funding to local authorities and increased expectation from stakeholders.

3.2 Officers have prepared a 'base budget' for 2014/15 which is shown as part of the high level forecasts in the 4 year Medium Term Financial Strategy 2014-18 (MTFS) shown at Appendix 5. The Base Estimates change during the year as a consequence of variations which are reported through the Finance Digest and considered by Budget Panel/Cabinet. This report has taken into account all variations to base estimates as at the Period 8 (end of November) Finance Digest.

The four -year medium-term base budget includes:

- Saving reductions as attached at Appendix 1.
- Growth additions as attached at Appendix 2.
- Estimates of fees and charges as attached at Appendix 4.
- The Government Grant announced in the provisional Local Government Finance Settlement on 18 December 2013 for the two years 2014/15 and 2015/16 at Appendix 6.
- A Council Tax Base of 30,112.10 for 2014/15. This represents an increase of 2.4% on the comparable figure for 2013/14.
- A zero council tax increase in 2014/15 and subsequent years (see paragraph 8 for details).

4.0 Savings

4.1 The 2013-14 Road Map process required £2m of further savings to be identified over three years. At the end of 2013/14 (first year) it is estimated that a total saving of £1.382k will be achieved which includes an annual average saving from outsourcing Waste, Street Cleansing and Parks of £594k. Heads of Service and Portfolio Holders have identified additional savings of £754k in 2014/15 and a further £170k in 2015/16 which will achieve the required reduction. **Appendix 1** details the savings which it is anticipated can be delivered in the period 2014/15 to 2017/18.

4.2 The 2014/15 and future years savings have been approved by the Leadership Team and are considered achievable without any detriment to service delivery.

4.3 At its meeting on 18 November 2013 the Joint Shared Services Committee agreed the Service Plans for Finance, ICT and Human Resources and Revenue and Benefits.

5.0 Growth

5.1 Wherever possible Officers have made every effort to cash limit expenditure budgets without affecting service delivery. However some growth is inevitable and **Appendix 2** details those bids for growth which are largely unavoidable and total £139k in 2014/2015 (and reducing thereafter). Officers are further examining the ICT budgetary provision and any changes will be reported in budget monitoring.

6.0 Fees and Charges

6.1 The income charging policy (which includes the concessions policy) is shown at **Appendix 3**.

6.2 The detailed schedule of the proposed fees & charges was presented to Budget Panel on 26th November 2013 who noted the report. Budget Panel recommended to Cabinet the increase in the cost of the single permit for those living in CPZ areas should be limited to £1, an increase of 4.56% from £22 to £23. The service estimates for fees and charges income shown at **Appendix 4** assumes an increase of £3 for the first permit.

7.0 Funding the Revenue Budget

7.1 The MTFs at **Appendix 5** indicates that the budget requirement for 2014/15 is £14,313,080

This will be funded from the following sources:

- Settlement Funding Assessment
- Specific Government Grants
- New Homes Bonus
- Council Tax
- Collection Fund Surplus
- Revenue Reserves

7.2 Local Government Finance Settlement

7.2.1 The Government Grant announced in the provisional Finance Settlement on 18 December 2013 for 2 years is detailed at **Appendix 6**. The respective amounts have been included in the MTFs.

7.3 New Homes Bonus

7.3.1 The New Homes Bonus top-slice has been reduced nationally by £100m for 2014/15 and 2015/16 (this is not new money, but will mean that RSG increases and the New Homes Bonus adjustment grant will fall by the same amount). It has been assumed that this funding stream will cease in 2017/18.

7.4 Setting the Council Tax

7.4.1 The Council needs to set a budget that gives an acceptable level of council tax, and breaks even in the medium to long term using the balances it has at its disposal.

The Council tax is calculated as follows:-

$$\frac{\text{Council Tax Requirement}}{\text{Council Tax Base}} = \text{Band D Tax}$$

The council tax requirement is the Council's net revenue expenditure, after crediting government grants, less the use of any balances in the year (i.e. any deficit in the year).

7.5 **Council Tax Base 2014/2015**

7.5.1 The analysis of dwellings in **Appendix 7** for the 2014/15 Council Tax Base results in a figure of 30,112.10 after allowing for the Council Tax Reduction Scheme and a collection rate of 97% (same as 2013/14).

7.6 **Council Tax for 2014/2015**

7.6.1 The level of council tax will be dependent upon the following factors:

- Council Tax for 2013/2014
- net expenditure for 2014/2015
- the Local Council Tax Reduction Scheme
- use of revenue reserves
- Government Grant
- the Council Tax Base

7.6.2 The Council currently receives grants for freezing council tax in 2011/12, 2012/13 and 2013/14. An announcement on funding a council tax freeze funding for 2014/15 is awaited.

7.6.3 The Localism Act 2011 abolished capping in England and instead introduced a power for local electorates to approve or veto excessive council tax rises Any authority setting a council tax increase which exceeds principles endorsed by the House of Commons (i.e. if it is “excessive”) will be required to hold a council tax referendum. The result of a council tax referendum will be binding. The Secretary of State has yet to announce the rules for 2014/15.

7.6.4 **Local Council Tax Reduction Scheme**

The Council at its meeting on 30 January 2013 agreed a Local Council Tax Reduction Scheme to apply from 1 April 2013. The new scheme replaced Council Tax Benefit and was introduced following consultation with the public and the major Precepting authorities. There are no proposals to change the current scheme for 2014/15. Both Hertfordshire County Council and the Police & Crime Commissioner have been informed of the position. This decision means there will be no change or new impact on applicants from 1st April 2014.

7.7 **Collection Fund**

7.7.1 The Collection Fund is a statutory requirement to account separately for Council Tax and following localisation of business rates in April 2013, Non Domestic Rates (NDR). The Fund records all transactions such as the yield, exemptions, discounts, provisions for bad debts, payments to major preceptors to Central Government and takes into account collection rates.

7.7.2 Until 2012/13, all business rates were paid to a national pool and then distributed to local government using grant formulae. From April 2013, the Council retains fifty percent of NDR but where this is above the DCLG baseline, the excess is paid to central government. Any growth is also subject to sharing and a levy is applied to the portion that would have remained as the local share. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation and reliefs.

7.7.3 The Council Tax setting process requires an estimate of the surplus or deficit at 31 March 2014 on Council Tax and NDR. The balances are distributed to the Council as the Billing Authority, the major preceptors and Central Government. The balance on Collection Fund (Council Tax) at 1 April 2013 was a £189k surplus (£31k for Watford as the surplus is shared with major preceptors). Initial indications show no negative impact for 2013/14. The Director of Finance will report the estimated position to the Cabinet meeting. Any surplus or deficit is a one-off adjustment. The Non Domestic Rates estimated surplus or deficit at 31 March 2014 (a new element this year) will also follow.

The estimated position at 31 March 2014 will be reported to Cabinet.

	Council Tax		NDR		Total
	%	£	%	£	£
Watford Borough Council		TBA			TBA
Hertfordshire County Council					
Police & Crime Commissioner					
Central Government					
Total		TBA			TBA

7.8 Balances and Reserves

7.8.1 Under section 25 of the Local Government Act 2003 there is a duty on the Chief Finance Officer to report on the robustness of the estimates and the adequacy of reserves when considering the budget requirement and for Members to have regard to this advice. The Director of Finance confirms the estimates have been correctly calculated under the assumptions used and that balances and reserves are adequate.

7.8.2 The General Fund balance is a general reserve providing a working balance to cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and provide a contingency to meet unexpected events and emergencies.

7.8.3 The external auditors, as part of their wider responsibilities, consider whether the Council has adequate arrangements with regard to balances and reserves. In assessing the adequacy of the level of the working balance the Council's external auditor (Grant Thornton) has commented they would not wish to see the General Fund Working Balance reduced below its current level of £1.35m.

7.8.4 The Council has set aside specific amounts as reserves for future policy purposes and to cover contingencies. Reserves have been created by appropriating amounts out of the General Fund balance to meet known or predicted requirements. Cabinet has previously agreed that the Economic Impact Reserve would, in the first instance, be used to meet any budget shortfalls. The full schedule of reserves and the anticipated position as at 1st April 2014 is attached at **Appendix 8**. An explanation as to intended use is shown in **Appendix 8a**.

7.8.5 It is necessary to distinguish between those reserves that are earmarked for specific expenditures, those which support the capital programme and those upon which restrictions exist. For example, the Spend to Save reserve can meet expenditure to secure future savings whilst the Car Parking Zones reserve has statutory uses.

7.8.6 An analysis of Key Risks that could require a further drawdown from reserves has been detailed at **Appendix 9** and should be considered before making any decisions upon the use of reserves.

8.0 CAPITAL PROGRAMME 2014-2018

- 8.1 The current capital programme was approved by Council at its meeting on 30th January 2013. Since that date the capital programme is reported regularly to the Budget Panel with a quarterly review by Cabinet. In addition specific reports have been considered by Cabinet and which have affected the originally approved programme.
- 8.2 The current capital programme is attached at **Appendix 10**. Cabinet should note that there is a Section highlighted as being new schemes and which require approval for inclusion within the capital programme.
- 8.3 These new schemes, which total £158k, include costs of replacement servers, pop up toilets refurbishment, museum CCTV including intruder alarm system and town centre CCTV camera replacements
- 8.4 Some schemes have been rephased in 2013/14 where the expenditure is expected to take place in 2014/15. These include the Cardiff Road Health Campus (£1.45m), the contribution to the Croxley Rail Link (£3.12m), Allotment Upgrades including Relocation (1.2m) and the Hurling Club Relocation (£0.8m).
- 8.5 The capital programme includes capital schemes of £15.6m in 2013/14, £15.2m in 2014/15, £3.6m in 2015/16, £1.6m in 2016/17 and £1.5m in 2017/18. The larger capital schemes include the estimated provision for the Cardiff Road Health Campus (£6.7m), Cultural Quarter (£4.2m), contribution to the Croxley Rail Link (£3.1m), New Market (£2.6m), Allotment Upgrades and Relocation (2.2m), Building Investment Programme (£1.7m) and Disabled Facility Grants (£1.6m). The actual expenditure required for these larger schemes is under constant review to secure best value.
- 8.6 The Capital Programme also includes an assessment of likely available resources to finance all capital expenditure and includes assumptions regarding new capital receipts. Capital receipts have been estimated at £3m in 2014/15, £2m in 2015/16, £1.3m in 2016/17 and £2m in 2017/18. The receipts in 2016/17 and 2017/18 relate to the first dividends from the Cardiff Road Health Campus Project.
- 8.7 The Council has been prudent in the past by building up Reserves in order to fund future capital projects. The Council now intends to utilise some of these Reserves in order to reduce the need for any future external funding requirements. To fund the capital programme during the period 2013 to 2018 the Council intends to use the Capital Fund Reserve (£1.8m), the Development Sites Decontamination Reserve (£1.3m), the New Homes Bonus Reserve (£1.6m) and the Weekly Collection Support Grant Reserve (£1.5m). In addition, the Council has also funded from Government Grants, Other Contributions and S106 Contributions.
- 8.8 The last two tables in **Appendix 10** indicate that the revised capital programme once completed in 2017/18 will leave a surplus of £4.56m for general fund schemes (which will be monitored as the programme develops) and a surplus of £1.56m for Section 106 projects.
- 8.9 Based on the revised capital programme, the Council has sufficient capital receipts, reserves, grants and contributions to fund the capital programme in the medium term (up until 2017/18), and so external borrowing will not be required. However, if either capital expenditure increases or forecasted capital receipts fall substantially then external borrowing may be required. At this stage, there is no forecast to borrow from the PWLB, however the Council has approval to borrow if required.

9.0 TREASURY MANAGEMENT STRATEGY 2014-17

9.1 The Treasury Management Strategy for 2014-17 is attached at **Appendix 11**. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's medium risk appetite, providing adequate liquidity initially before considering investment returns. This report covers two main areas:

Capital Issues

- The capital plans 2014-17;
- The Minimum Revenue Provision strategy and policy statement;
- The long and short term borrowing requirement.

Treasury Management Issues

- The current portfolio position;
- Treasury indicators: limits to borrowing activity;
- Prospects for interest rates;
- The borrowing strategy;
- Annual investment strategy;
- Reporting requirements;
- Policy on use of external service providers;
- Bank tender process; and
- Member and officer training.

9.2 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities and has previously been adopted by the Audit Committee. There are no changes to the Treasury Management Policy Statement to report and the treasury service confirm that they are complying with all aspects of the Treasury Policy Statement and will continue to do so in future years.

9.3 It should be noted however that the criteria for placing investments have been reviewed to take into account general credit rating adjustments that have occurred over the past twelve months.

9.4 It is necessary for Council to agree the degree of risk to which it is prepared to expose the investment portfolio. The Director of Finance would define this as follows:

Low Risk—limited to use of the Debt Management Office facility and other UK sovereign financial instruments; major clearing banks possessing high credit rating (or substantially owned by the UK Government); triple AAA money market funds; local authorities.

Medium Risk—the use of Building Societies with an asset base above £5,000m as this sector is generally not rated by the Credit Rating Agencies;

High Risk—low rated clearing banks; banks based outside the UK (this is a generalisation as many German / Dutch / Scandinavian and French banks would almost certainly be deemed too big to fail); building societies having a small asset base.

- 9.5 By the above 'crude' criteria, Watford might be considered to have a medium appetite for risk the Audit Committee and Council will need to feel comfortable with this approach.
- 9.6 The Director of Finance comments that the Treasury Management Strategy has no direct financial implications. **Appendix 11** sets parameters within which officers should operate and could result in indirect financial implications which are not possible to evaluate at this time.
- 9.7 It recommends the ability to borrow up to a maximum of £10m and reflects anticipated borrowing of £6m from the Herts Local Enterprise Partnership Growing Places Fund with further potential funding for other re-development projects. In all cases there will be an expectation that a financial return will accrue to enable these loans to be repaid within a relatively short period of time. **Appendix 11** details the criteria for determining to whom the Council should be lending its money and has been reviewed in the light of the general credit rating downgrades that have occurred over the past twelve months.
- 9.8 **Annex A to Appendix 11** reports upon the Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management guidance.

10.0 CONSULTATION

- 10.1 Budget Panel has been fully engaged throughout this process and feedback from its meeting on 15th January will be circulated prior to the Cabinet meeting.
- 10.2 As part of the statutory consultation with business ratepayers copies of this report has been sent to the Watford Chamber of Commerce and the borough's Local Strategic Partnership-One Watford. Any feedback from business or partners will be reported at the meeting.

11.0 IMPLICATIONS

11.1 Financial Implications

These are covered within the report.

11.2 Legal Implications

In the Constitution it is Council who is required to set the budget, which includes the Council Tax Base and setting the level of Council Tax. Cabinet therefore must forward it's recommendations on the budget to Council. The Constitution also requires that any recommendation from Cabinet to Council regarding the budget must be submitted before the 8th February in the preceding financial year to enable the Mayor to have the opportunity to call in any decision of Council on the budget. The Council must set its 2014/15 budget by 11th March 2014. The Local Council Tax Reduction Scheme has to be approved by Council by 31 January each year for the next financial year.

It is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually. The report meets the requirement of CIPFA's Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

11.3 **Equalities**

11.3.1 Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices, and decisions impact on people with different protected characteristics. It is also important that the Council is not discriminating unlawfully when carrying out any of its functions.

11.3.2 This report provides an over view of Budget proposals and equalities issues will need to be specifically considered before changes to existing service levels are introduced.

11.4 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall Score
That Cabinet does not agree the council tax base before statutory date	1	4	4
That Cabinet does not recommend revenue and capital estimates for 2014/2015 to Council	2	3	6
That Cabinet does not agree a medium term financial strategy to address future government grant reductions	2	3	6
That Cabinet does not recommend a council tax to apply for 2014/2015	1	3	6
That Cabinet does not indicate how it intends to finance any difference between net expenditure and sources of funding	2	4	8
That the Council will exceed its borrowing parameters	1	3	3
That the Council will be unable to service its annual borrowing costs	1	3	3
That the Council will be unable to repay any loans at maturity date	1	4	4
Investment placed with a non approved body	1	3	3
Investment with a counterparty that subsequently defaults	1	4	4

11.5 **Staffing**

It is inevitable that proposals to reduce the council's levels of expenditure will contain implications for current levels of staffing. At such time that any proposals are identified then consultation with affected staff and trade union representatives will take place.

11.6 **Accommodation**

There are no clearly defined proposals that will affect current accommodation standards or service delivery.

11.7 **Community Safety**

All proposals relating to 2014/2015 Revenue and Capital budgets have taken into account the effect upon community safety.

11.8 **Sustainability**

The Council has established policies in the past to support sustainability such as the purchase of green energy through its procurement policies.

Appendices

Appendix 1	Revenue Savings 2014-2018
Appendix 2	Revenue Growth 2014-2018
Appendix 3	Income Charging Policy for Fees & Charges
Appendix 4	Fees and Charges Proposals for 2014-2015
Appendix 5	Medium Term Financial Strategy 2014-2018
Appendix 6	Summary of Local Government Finance Settlement 2014-2015
Appendix 7	Council Tax Base 2013-2014
Appendix 8	Schedule of Reserves
Appendix 8a	Notes to the Reserves
Appendix 9	Key Risks
Appendix 10	Draft Capital Programme 2013-2018
Appendix 11	Treasury management Policy

This page is intentionally left blank

2014/15 BUDGET SETTING

REVENUE ESTIMATES - Proposed Savings submitted by Services Affecting General Fund

Department	Cost Centre Description	Cost Centre	2014/15	2015/16	2016/17	2017/18	Reason	
			Budget Saving	Budget Saving	Budget Saving	Budget Saving		
			£	£	£	£		
Corporate Strategy & Client Services	Holywell C.C.	DHL000	-2,000	0	0	0	Reduction to contingency budget	
	Orbital C.C.	DHN000	-2,000	0	0	0	Reduction to contingency budget	
	Centrepont C.C.	JCE000	-2,000	0	0	0	Reduction to contingency budget	
	Leavesden Green C.C.	DHG000	-3,000	0	0	0	Reduction to contingency budget	
	Meriden C.C.	DHR000	-5,000	0	0	0	Reduction to contingency budget	
	ICT Client	AWA900	-146,000	-97,000	-11,000	0	ICT Shared Service savings (Capita contract)	
	Women's Centre	FLJ000		26,000	0	0	0	Women's Centre funding ceases as of 1st April 2014
		AEX000		-26,000	0	0	0	
		AEX000		-230	0	0	0	
		AEX000		-200	0	0	0	
		AEX000		-970	0	0	0	
		AEX000		30,320	0	0	0	
AEM000			-30,320	0	0	0		
AEM000		-44,000	0	0	0			
Corporate Strategy & Client Services			-205,400	-97,000	-11,000	0		
Community & Customer Services	Community Safety (incl other Env Health services)		-37,500	-12,500	0	0	Net review of Community Safety service post election of Police & Crime Commissioner (see A. Gough e-mail dated 1/11/13)	
	Customer Service Centre	ADX000	-3,100	0	0	0	Saving approved by Council on 30th January 2013	
	Arts & Events	DDI000	-14,610	0	0	0	0.5 FTE post for Arts Development Officer to be removed as management to transfer to Museum Manager. Saving part of £50k approved by members in January 2013	
		DDI000	-400	0	0	0		
		DDI000	-1,110	0	0	0		
		DDI000	-2,540	0	0	0		
	Culture & Play Sup Serv	DEA000	3,720	0	0	0	Savings achievable in revenue budgets. Saving part of £50k approved by members in January 2013	
		DCP000	-1,000	0	0	0		
		DCP000	-1,500	0	0	0		
		DCP000	-1,500	0	0	0		
	Arts & Events	DDI000	-1,500	0	0	0	Savings achievable in revenue budgets. Saving part of £50k approved by members in January 2013	
		DDI000	-500	0	0	0		
	Arts & Events	DDI000	-17,200	0	0	0	Savings achievable in revenue budgets. Saving part of £50k approved by members in January 2013	
		DDI000	-2,700	0	0	0		
Community & Customer Services			-81,440	-12,500	0	0		
Regeneration & Development	Implementation Team	BEA000	-21,920	-15,660	0	0	Delete Project Officer post as of 1st September 2014	
		BEA000	-1,730	-1,240	0	0		
		BEA000	-3,560	-2,540	0	0		
		BEA000	-470	-340	0	0		
		BEA000	-320	-230	0	0		
	Building Control	VARIOUS	-121,580	0	0	0	Potential externalisation of Building Control with full business case still being evaluated (direct costs only)	
	Commercial Property	VARIOUS	-230,000	0	0	0	Review of commercial property portfolio (not part of fees & charges annual review)	
	CCTV	VARIOUS	-36,760	0	0	0	Relocation of CCTV service from Charter Place to Shady Lane	
	Market	VARIOUS	-5,480	-40,000	0	0	Affect of old & new market expected to be in operation by Sept 2014	
	Regeneration & Development		-422,380	-60,410	0	0		
Democracy & Governance	Various Cost Centres	VARIOUS	-4,300	0	0	0	Contract savings identified by Clive Goodchild affecting various Council locations	
	Various Cost Centres	VARIOUS	-2,600	0	0	0	Toner cartridge savings achieved via procurement	
	Various Cost Centres	VARIOUS	-3,850	0	0	0	Mobile phone savings achieved via procurement	
Democracy & Governance		-10,750	0	0	0			
Strategic Finance	Finance Misc Expend	ARG000	-35,000	0	0	0	Expected reduction in external annual audit fees	
Strategic Finance			-35,000	0	0	0		
All Services - MTFs Affect			-754,970	-169,910	-11,000	0		

This page is intentionally left blank

2014/15 BUDGET SETTING**REVENUE ESTIMATES - Proposed Growth submitted by Services Affecting General Fund**

Department	Cost Centre Description	Cost Centre	2014/15	2015/16	2016/17	2017/18	Reason
			Budget	Budget	Budget	Budget	
			Growth	Growth	Growth	Growth	
Corporate Strategy & Client Services	High Street	KPH000	£ 4,500	£ 0	£ 0	£ 0	Trees & plants (part of Parade redevelopment). Cabinet approved 17/9/12. Savings identified in prior years carried over which cannot be found.
	Partnerships & Performance	ADP000	5,550	0	0	0	
Corporate Strategy & Client Services			10,050	0	0	0	
Community & Customer Services	Customer Service Centre	ADX000	8,000	0	0	0	Increase costs in MacFarlane telephony system. Town centre pigeon control strategy
	Animal Control	EFC000	25,000	-10,000	0	0	
Community & Customer Services			33,000	-10,000	0	0	
Democracy & Governance	Non -Ops Build M'tce	FKE000	15,000	0	0	0	Weekly checks to filtration / aeration including water quality for new pond (part of Parade redevelopment). Cabinet approved 17/9/12 Utility costs for Parade redevelopment. Cabinet approved 17/9/12
	Non -Ops Build M'tce	FKE000	5,500	0	0	0	
	Non -Ops Build M'tce	FKE000	7,500	0	0	0	Routine maintenance regarding Parade redevelopment. Cabinet approved 17/9/12
	Civic Expenses	ADE000	3,000	0	0	0	Increased costs incurred to hold annual Audentior awards & civic events
	Committee Services	AJX000	27,000	0	-27,000	0	Additional member of staff for triple elections and implementation of IER. Fixed term contract to be reviewed after 18 months
		AJX000	2,200	0	-2,200	0	
		AJX000	4,000	0	-4,000	0	
		AJX000	800	0	-800	0	
Public Conveniences	KDA000	20,000	0	0	0	Efficiency savings for previous financial year(s) not made	
Democracy & Governance			85,000	0	-34,000	0	
Regeneration & Development	Economic Development	GED000	8,860	0	0	0	Creation of part time Economic Development Officer post (Band 6) to deliver second round of corporate projects
		GED000	660	0	0	0	
		GED000	1,450	0	0	0	
		GED000	260	0	0	0	
Regeneration & Development			11,230	0	0	0	
All Services - MTFS Affect			139,280	-10,000	-34,000	0	

This page is intentionally left blank

Income (Charging) Policy

Summary

The Budget Panel agreed to adopt the income charging policy below at their meeting on 11 September 2012 and accepted the categorisation of charges referred to at table 1.

The policy was set against the Audit Commission's 2008 review of charging in the public sector which recommended that;

- Councils should undertake regular reviews of their approaches to charging, both within service areas and across the council;
- Managers should ensure that income from charges, and the level of subsidy this provides, are transparent and inform the decision-making process;
- Councillors and managers should better understand the non-financial contribution charging has to strategic and service objectives.
- Councils do not make an effective use of their charging powers, and authorities need to change their approach to charging if they are to achieve their financial and strategic objectives. At a time when pressure on services is increasing in the public sector and revenues decreasing, councils need to understand, address and improve the way they charge for services.

Key Principles for a Charging Policy

In general a charge will be levied for all discretionary services on the principle "the user pays". Charges should seek to optimise potential income. The decision of whether to charge for a specific service will be subject to an assessment of the impact of charging on the delivery of the Councils corporate priorities and priority outcomes.

- In undertaking an 'impact assessment' the following questions will be asked:
- Why are we providing the service?
- Which of the Council's corporate priorities and priority outcomes are achieved by the service?
- What impact will charging have on the achievement of the Council's corporate priorities and priority outcomes?
- Do other similar or neighbouring Councils charge for the service and what is the impact of any such change?
- Are alternate service providers operating in the market and if so what is their level of charging?
- What is the estimated net additional income that is likely to be generated by the charge (i.e. impact on our financial position)?
- There are different levels, or basis, for the charging of service. The actual level, or basis of the charge, will be influenced by the impact assessments.

The objectives for differing charging strategies are shown below in table 1.

Table 1: Charging Strategy

Charging Strategy	Objective
Commercial Charges	The Council aims to cover the cost of providing the service and make a surplus used to fund other priority services. The full cost of the service, including an element for capital financing costs, support services and corporate overheads, will be the starting point for calculating charges.
Full Cost Recovery	The council aims to recover the costs of providing this service from those who use it. The full cost of the service, including an element for capital financing costs, support services and corporate overheads, will be the starting point for calculating charges.
Subsidised	Users of the service to make a contribution to the costs of providing it. This might be to meet a service objective or allow competition with other providers
Free	The Council chooses to make the service available at no charge to meet a service objective - cost of service met by all Council Tax payers.
Statutory	Charges are determined in line with legal requirements

Service Responsibilities

- 1.1 Service Managers should initially assess current chargeable services and allocate these to one of the categories above.
- 1.2 To maximise income from fees and charges in accordance with an Income policy, Service Managers are responsible for –
 - Annually reviewing their services to identify any aspects that could be charged for and to introduce such charges unless Cabinet considers it would be inappropriate.
 - Reviewing and varying fees and charges at least annually for services under their control, after consultation with the relevant Portfolio Holder and, in doing so, they shall –
 - ensure that relevant legislation is complied with,
 - have regard to the charges of any alternative service providers with whom the Council is competing, seek to maximise income, net of applicable costs, unless it will have a clearly detrimental impact on the achievement of the Council objectives.
 - introduce differential pricing to particular client groups where these are expected to stimulate demand and generate additional net income which would otherwise not be obtained.
 - set prices lower than could be reasonably achieved if this is the most cost effective way of achieving Council objectives and the necessary funding is available. Use of this option requires approval of Cabinet,
 - set fees and charges that allow an element of discretion if it can be demonstrated that this will lead to an overall benefit to the Council. It is important that any use of discretion is recorded so that it can be clearly shown that decisions have been made fairly and consistently.

Council Fees & Charges Concessions Policy

Concessions will be available to residents on identified income related benefits and discounts. These benefits and discounts include;

- Housing Benefit, in the form of Rent Allowance or Local Housing Allowance for people living in rented accommodation.
- Local Council Tax Reduction Scheme discount
- Income Support
- Job Seekers Allowance (income based)
- Working Tax credit
- Child Tax Credit
- Guaranteed Pension Credit (not Savings Pension Credit)
- Employment and Support Allowance (income based)

This list will change as changes are made to the names of the benefits or benefits themselves.

No concession is applied on the grounds of age (except Under 18 teams hiring football pitches) or disability unless the resident is in receipt of benefits.

Proof of Benefits and Discounts

Residents will need to confirm the type of the benefit or discount they are claiming and to give permission for a check to be made with the Councils' Revenues & Benefits section that this is the case.

Amount of Concessions

The amount of concession will be to apply a 50% reduction for all fees and charges.

Variations

For use of the Council's sports pitches the existing arrangements that provide for subsidised fees for junior (under 18) sports teams to use pitches is to continue so as to encourage usage and participation (concession to be harmonised to 50%)

The Council's externally managed Leisure Centres operate specific concessions for particular activities.

This page is intentionally left blank

APPENDIX 4

Fees and Charges - Service income budgets

	2012/13 Actual	2013/14 Original Budget	2014/15 Proposed Budget
	£	£	£
CORP STRATEGY & CLIENT SERVICES			
Parks, Pitches & Woods	(40,629)	(72,200)	(10,500)
Community Centres	(4,577)	(4,500)	(4,500)
Allotments	(28,921)	(24,000)	0
Specials & Street Cleansing	(55,400)	(57,790)	(37,520)
Cheslyn Gardens	(4,476)	(3,000)	(1,000)
Trade Waste & Other Waste	(979,107)	(920,320)	(159,860)
Cemeteries	(218,840)	(211,150)	(215,750)
sub-total	(1,331,950)	(1,292,960)	(429,130)
CORP STRATEGY & CLIENT SERVICES			
SLM & Related Income	(90,516)	(84,170)	(84,170)
sub-total	(90,516)	(84,170)	(84,170)
COMMUNITY & CUSTOMER SERVICES			
Housing	(612,796)	(560,500)	(580,500)
Arts, Events and Heritage	(4,484)	(3,300)	(3,300)
Licenses	(206,195)	(147,480)	(145,475)
Other Licenses	(2,159)	(6,810)	(1,115)
Gaming Licenses	(111,057)	(97,710)	(100,781)
Pest Control	(14,002)	(21,600)	(21,600)
Stray Dogs	(3,403)	(2,790)	(3,500)
Miscellaneous	(74,997)	(47,120)	(50,926)
Customer Services (incl Information Unit)	(5,748)	(10,000)	(10,000)
sub-total	(1,034,841)	(897,310)	(917,197)
REGENERATION & DEVELOPMENT			
Watford Market	(376,703)	(287,780)	0
Parking - Controlled Parking Zones (❖ see below)	(1,563,905)	(1,342,550)	(1,342,550)
Parking - Other (incl Avenue, Longspring & Town Hall)	(272,295)	(266,560)	(266,560)
Building Control	(224,947)	(197,500)	(197,500)
Development Control (incl Policy Team)	(307,684)	(296,600)	(296,600)
Land Searches	(122,290)	(60,000)	(80,000)
sub-total	(2,867,823)	(2,450,990)	(2,183,210)
DEMOCRACY & GOVERNANCE			
Town Hall Facilities	(81,524)	(93,290)	(86,000)
Elections Unit	(4,024)	(2,500)	(3,000)
Legal Services	(21,132)	(24,130)	(19,000)
sub-total	(106,679)	(119,920)	(108,000)
REVENUES & BENEFITS			
Council Tax (Single Person Discount)	2,870	(2,000)	(2,000)
sub-total	2,870	(2,000)	(2,000)
Sub Total	(5,428,940)	(4,847,350)	(3,723,707)
Parking - Controlled Parking Zones (❖ see above)	1,563,905	1,342,550	1,342,550
Grand Total	(3,865,035)	(3,504,800)	(2,381,157)

This page is intentionally left blank

MEDIUM TERM FINANCIAL STRATEGY 2014 – 2018

General Fund Budget Projections 2013/14 - 2017/18 as at January 2013

	2012/13 Actual	2013/14 Base Forecast	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Base	14,838,011	15,021,480	14,178,680	14,313,080	14,456,290	15,194,710
Savings agreed by LT	-	(568,860)	(186,110)	(169,910)	(11,000)	(7,000)
Growth agreed by LT	-	-	139,280	(10,000)	(34,000)	-
Fees & Charges review	-	-	(12,930)	-	-	-
Unavoidable changes agreed by LT	-	-	75,800	66,880	131,890	28,520
Other Items:						
Council Roadmap Efficiencies	-	-	-	(400,000)	-	-
Waste Veolia Outsource	-	-	(393,610)	(79,490)	-	(146,000)
DCLG Waste grant	-	(273,940)	(201,030)	474,970	-	-
Employer's superannuation contributions	-	-	748,370	199,070	199,240	-
Health Campus-Interest & Dividends	-	-	-	-	(400,000)	(600,000)
Pay Inflation / Increments / restructuring	-	-	114,850	87,750	93,010	100,000
Increased employer's NI	-	-	-	-	-	300,000
Pensions payment	-	-	-	-	700,000	(700,000)
Review of co-mingling recycling	-	-	91,000	(91,000)	-	-
Other unavoidable changes	-	-	(241,220)	64,940	59,280	-
Net Expenditure	14,838,011	14,178,680	14,313,080	14,456,290	15,194,710	14,170,230
Funded By:						
Grant Settlement	5,418,738	5,724,090	4,913,270	4,106,170	4,020,470	3,899,940
Business Rate Grant Changes	-	-	(186,000)	(100,000)	77,000	205,000
CT Benefit Transitional Relief	-	26,000	-	-	-	-
CLG Grant for Council Tax Freeze	206,462	288,690	286,120	286,050	285,850	285,350
New homes bonus	1,393,476	1,048,000	1,731,450	2,642,500	3,500,000	-
Grant in Lieu of New Homes Bonus	-	-	-	-	-	1,750,000
Planned use of reserves re. Veolia unspecified works	-	-	51,430	51,430	51,430	51,430
Planned contribution to Earmarked Reserves	(150,000)	(150,000)	-	-	-	-
(To)/From Reserves	(318,758)	(157,890)	(6,370)	(90,510)	(338,170)	342,910
Collection Fund Surplus/Contributions	29,632	50,000	-	-	-	-
	6,579,550	6,828,890	6,789,900	6,895,640	7,596,580	6,534,630
Council Tax Requirement	8,258,461	7,349,790	7,523,180	7,560,650	7,598,130	7,635,600
CTR target	8,258,461	7,349,790	7,523,180	7,560,650	7,598,130	7,635,600
Council Tax Base	33,055	29,418	30,112	30,262	30,412	30,562
Council Tax % increase	-	-	-	-	-	-
Average charge	249.84	249.84	249.84	249.84	249.84	249.84
Collection rate used (as a percentage)	-	97	97	97	97	97

This page is intentionally left blank

Briefing on the Provisional Local Government Settlement 2014/15 – 18 December 2013

Introduction

- 1.1 The statement on the provisional local government finance settlement 2014/15 was announced on the 18th December 2013. This briefing note highlights key issues included in the announcement.
- 1.2 A copy of the announcement can be found here
[:http://www.parliament.uk/documents/commons-vote-office/December%202013/16%20December/8.%20DCLG%20LG%20Finance.pdf](http://www.parliament.uk/documents/commons-vote-office/December%202013/16%20December/8.%20DCLG%20LG%20Finance.pdf)
- 1.3 A copy of the details can be found on the link below:
<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2014-to-2015>
- 1.4 The announcement includes a provisional settlement for 2014-15 and an indicative settlement for 2015-16. Both are subject to parliamentary approval.
- 1.5 Some specific grants have been announced and others will follow.

Key issues emerging from the announcement are as follows:

- Funding to local government continues to fall in cash terms in 2014-15 and 2015-16 (settlement funding falls 9.4% in 2014-15 and 13.2% in 2015-16).
- The 2% cap on the Business Rate Multiplier has been applied for 2014/15, with a S31 grant of £108m created to compensate authorities for the lost income through the Business Rates Retention scheme. Although there is speculation that this has been incorrectly funded from the settlement funding.
- Full details on how the business rates scheme in relation to the announcements made in the Autumn Statement are still awaited.
- Council Tax Freeze Grant for 2013/14 is now included within the Settlement Funding Assessment for 2014/15 and 2015/16 (previously planned for 2015/16).
- Council Tax Freeze Grant funding for 2014/15 and 2015/16 will be built into the Spending Review baseline. DCLG have assumed £235m in 2014/15 and £471m in 2015/16; however, the actual amount will be subject to actual council tax increases.
- Council Tax threshold principles will be announced in the New Year.
- The New Homes Bonus top-slice has been reduced by £100m for 2014/15 and 2015/16 (this is not new money, but will mean that RSG increases and the New Homes Bonus adjustment grant will fall by the same amount).
- The planned £50m top-slice for capitalisation in 2014/15 has been reduced to zero. However, £22m has currently been set aside to fund Efficiency Support Grant and funding for rural areas.

What does this mean for Watford Borough Council?

- 1.6 Overall the settlement was broadly in line with the amount which was included in the budget for 2014/15. However, there has been a slightly larger reduction in funding for 2015/16 than was previously budgeted for. The figures are included in the table below.

	2014/15 £	2015/16 £
Budget	5,482,260	4,758,350
Settlement	5,475,089	4,667,822
Reduced Funding	7,171	90,528

- 1.7 However, the New Homes Bonus grant allocations were higher than included in the 2013/14 budget and this increase had been reflected in the future projections. The New Homes bonus allocations can be found on the link below:

<https://www.gov.uk/government/policies/increasing-the-number-of-available-homes/supporting-pages/new-homes-bonus>

- 1.8 Figures for funding beyond 2015/16 have not been announced but it is expected that further reductions will continue and a 2% reduction has been applied from 2016/17.

NOTES TO THE COUNCIL TAX BASE – 2014/2015

1 The Local Government Finance Act 1992 requires Councils which collect the Council Tax (known as “Billing Authorities”) to carry out certain functions. This includes the calculations in Sections 31 to 37 of the Act concerned with setting the Council Tax. These calculations produce the Council Tax Base, which is used to work out the basic amount of Council Tax. This must be notified to Hertfordshire County Council and Hertfordshire Police Authority (known as precepting authorities) between 1st December and 31st January in the financial year before that to which the Tax Base applies.

2 The methodology for calculating the base is contained within The Local Authorities (Calculation of Council Tax Base)(England) Regulations 2012 (SI2914/2012), “the Regulations”.

3 The calculation is made by applying the following formula:-

$$T = A \times B$$

where -

A is the total of the “relevant amounts” for that year for each of the valuation bands shown in the billing authority’s valuation list as applicable to one or more dwellings situated in its area;

B is the authority’s estimate of its collection rate for that year.

4 The Tax Base (denoted as “T”) is calculated by taking the total number of properties in each valuation band, reflecting the estimated discounts to be applied for single occupancy and empty properties, stating the net result in terms of Band D and applying to the total figure our best estimate of the rate of collection. Watford Borough Council will use the “T” figure to calculate its total Council Tax to be raised for the new financial year.

5 The formula set out in the regulations for the calculation of “A” is set out as:

$$((H - Q + E + J) - Z) \times \frac{E}{G}$$

where -

H is the number of chargeable dwellings in the area listed in the band on 30 November (described as ‘Dwellings’ in the Appendices); less the number of dwellings which were exempt on that day; plus or less the net number of full-year equivalent dwellings in each band resulting from properties being placed in a lower valuation band reflecting reductions for disabled persons under Section 13 of the Act. This is shown in Row 6.

Q is a factor to take into account the amount of discounts of council tax payable and is calculated by multiplying the number of dwellings affected by the relevant percentage discount. Shown in Row 10 of the table

J is the amount of any adjustment in respect of changes in the number of chargeable dwellings (described as “Additions and Reductions” in the Appendices). Shown in Row 12 of the table.

Z is the total amount that will be applied in accordance with the Council’s council tax reduction scheme in relation to the band expressed as an equivalent number of chargeable dwellings in that band. Shown in Row 14 of the table.

F is the number in the proportions 5:6:7:8:9:11:13:15:18 applicable to properties in Bands A Disabled to H respectively. Shown in Row 16 of the table.

G is the number, which, in that proportion, is applicable to dwellings in valuation Band D (i.e. 9). Shown in Row 17.

6 The result of the calculation is that "A" is determined as 31,043.40

7 For the purposes of calculating "T", the assumed collection rate "B" has been determined to be 97%.

8 This results in the calculation of T being $31,043.40 \times 97\% = 30,112.10$

9 The other authorities who raise monies from the residents of Watford (the precepting authorities) will also use this figure and those from other billing authorities within their area to determine their Band D charge (Hertfordshire County Council will require this information from all ten Hertfordshire Districts). They will then total their "T" figure, divide it into the net income they need to raise, to arrive at their Band D charge, which will be notified to each relevant Billing Authority (District Council) in the form of both Band D charge and monies to be paid over to them during the year.

10 This information will be determined and notified in February when the whole budget exercise incorporating our likely expenditure and the precepts from the County Council and Police Authority will result in the Council setting its Council Tax levels for 2014/15 at the Functions Committee on 27 February 2014.

AREA	Watford									
Description	Band A Disabled	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
1. Dwellings	0.00	278.00	3,896.00	13,885.00	12,311.00	3,574.00	2,134.00	1,861.00	82.00	38,021.00
2. Demolished	0.00	0.00	0.00	1.00	0.00	1.00	1.00	1.00	1.00	5.00
3. Exemptions	0.00	10.00	86.00	149.00	102.00	24.00	17.00	12.00	0.00	400.00
4. Long Term Empty Premium	0.00	0.00	0.00	1.00	1.00	3.00	2.00	0.00	0.00	7.00
5. Disabled Relief	0.00	9.00	24.00	32.00	-27.00	-13.00	-4.00	-16.00	-5.00	0.00
6. Chargeable Dwellings (H)	0.00	277.00	3,834.00	13,767.50	12,182.50	3,537.50	2,113.00	1,832.00	76.00	37,619.50
7. Discounts x 25% SPD	0.00	199.00	2,330.00	5,157.00	3,181.00	721.00	347.00	252.00	1.00	12,188.00
8. Discounts x 25%	0.00	0.00	18.00	170.00	111.00	26.00	12.00	8.00	0.00	345.00
9. Discounts x 50%	0.00	0.00	0.00	5.00	6.00	10.00	3.00	12.00	12.00	48.00
10. Discount Deduction (Q)	0.00	49.75	587.00	1,334.25	826.00	191.75	91.25	71.00	6.25	3,157.25
11. Additions	0.00	0.00	84.00	56.00	2.00	4.00	0.00	0.00	0.00	146.00
12. Total Adjustments (J)	0.00	0.00	84.00	56.00	2.00	4.00	0.00	0.00	0.00	146.00
13. Sub-Total (H-Q+J)	0.00	227.25	3,331.00	12,489.25	11,358.50	3,349.75	2,021.75	1,761.00	69.75	34,608.25
14. Reduction Scheme (Z)	6.08	75.39	934.15	1,968.45	1,319.40	228.18	56.07	23.20	0.00	4,610.92
15. Net Dwellings ((H-Q+J)-Z)	-6.08	151.86	2,396.85	10,520.80	10,039.10	3,121.57	1,965.68	1,737.80	69.75	29,997.33
16. Band Proportion (F)	5.00	6.00	7.00	8.00	9.00	11.00	13.00	15.00	18.00	
17. Band D Proportion (G)	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	
18. Band D Equivalents	-3.38	101.24	1,864.22	9,351.82	10,039.10	3,815.25	2,839.32	2,896.33	139.50	31,043.40

TAX BASE CALCULATION	
Total Band D Equivalents	31,043.40
Collection Rate	97.00%
Adjusted Band D	30,112.10
Contribution in Lieu	0.00
Tax Base	30,112.10

This page is intentionally left blank

APPENDIX 8

Cost Centre	Description	Balance at 1-Apr-13	Forecast Movement	Forecast Balance at 31-Mar-14
		£	£	£
VHF000	General Fund	-1,350,000	0	-1,350,000
	<u>Earmarked Reserves</u>			
	<u>Capital</u>			
VLM000	Capital Fund Reserve	-1,812,642	1,812,642	0
VLW000	Development Sites - Decontamination Reserve	-1,310,324	110,000	-1,200,324
VLN004	Vehicle Replacement Reserve	-575,000	-150,000	-725,000
VLA000	Weekly Collection Support Grant	0	545,457	545,457
	Sub Total - Capital Reserves	-3,697,966	2,318,099	-1,379,867
	<u>Revenue</u>			
VLR000	Area Based Grant Reserve	-86,050		-86,050
VLU000	Budget Carry Forwards Reserve	-234,910	234,910	0
VFD000	Car Parking Zones Reserve	-596,935	299,830	-297,105
VGH000	Charter Place Tenants Reserve	-379,850		-379,850
VNLO00	Climate Change Reserve	-36,133		-36,133
VLV000	Economic Impact Reserve	-1,824,278	-12,622	-1,836,900
VHK000	Exam In Public - LDF Reserve	-232,722		-232,722
VLN002	Future Pension Funding Reserve	-1,375,000		-1,375,000
VLX000	High Street Innovation Reserve	-100,000		-100,000
VHM000	Homeless Prevention Reserve	-112,238		-112,238
VLT000	Housing & PDG Reserve	-300,934	35,000	-265,934
VHN000	Housing Benefit Subsidy Reserve	-996,616		-996,616
VLL000	Invest To Save Reserve	-1,254,289	342,150	-912,139
VLP000	LA Business Growth Incentive Reserve	-613,270	20,000	-593,270
VGU000	Le Marie Centre Repair Reserve	-12,868		-12,868
VHG000	Leisure Structured Maintenance Reserve	-422,514		-422,514
VGV000	Multi-Storey Car Park Repair Reserve	-180,646		-180,646
VLQ000	New Homes Bonus Reserve	-542,497	-1,048,040	-1,590,537
VLS000	Performance Reward Grant Reserve	-59,528		-59,528
VLY000	PRG Capital Grants-One Watford Reserve	-191,404		-191,404
VNN000	Recycling Reserve	-11,700		-11,700
VHL000	Rent Deposit Guarantee Scheme	-100,000		-100,000
	Sub Total - Revenue Reserves	-9,664,381	-128,772	-9,793,153
	Total Reserves including General Fund	-14,712,347	2,189,327	-12,523,020

This page is intentionally left blank

Details of the purpose of each current earmarked reserve are set out below:

Reserve	Purpose
Area Based Grant Reserve	This grant was received to encourage initiatives relating to preventing violent extremism and anti social behaviour.
Budget Carry Forward Reserve	This reserve has been created to 'carry forward' unspent revenue budgets for use in the proceeding financial year.
Capital Fund Reserve	To provide for funding of key capital projects.
Car Parking Zone Reserve	This is a statutory ring-fenced reserve, for future controlled parking related costs.
Charter Place Tenants Reserve	Tenants' contributions to meet major works.
Climate Change Reserve	To fund energy saving initiatives to reduce energy consumption.
Development Sites Decontamination Reserve	To provide for the costs of any decontamination of development sites for which the Council may have liability.
Economic Impact Reserve	To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget.
High Street Innovation	To assist with regeneration of Town Centres.
Homelessness Prevention Reserve	To assist with homelessness among young people.
Housing Benefit Subsidy Reserve	This reserve has been created to meet any subsidy clawback by DWP.
Housing Planning Delivery Grant Reserve	This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes.
Insurance Fund Reserve	To provide for unforeseen uninsured losses.
Invest to Save Reserve	To support schemes where initial expenditure will produce longer term savings.
LA Business Growth Incentive Reserve	Government grant received in respect of business rate growth.
Le Marie Centre Repairs Reserve	To help meet the Council's obligation as landlord.
Leisure Structural Maintenance Reserve	To fund future structural maintenance needs not covered within the existing Leisure services contract.
Local Development Framework Reserve	To help fund the costs of the production of the Local Development Plan.
Multi Storey Car Park Repair Reserve	To provide funds towards major structural works.
New Homes Bonus Reserve	Government grant received in respect of new homes built.
Pension Funding Reserve	To meet one off pension costs and redundancy programme.
Performance Reward Grant Reserve	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets.
Recycling Reserve	This reserve will help to 'smooth out' fluctuations in recycling income in future years.
Rent Deposit Guarantee Scheme Reserve	To assist in the provision of homelessness accommodation.
Vehicle Replacement Reserve	To provide for the replacement of the Council's refuse freighters.

This page is intentionally left blank

Key Risks

Type of Risk	Comment
Revenue balances insufficient to meet estimate pay award increases	The medium term planning period takes into account a 1% increase for the period 2014/15 to 2016/17
Revenue balances insufficient to meet estimate of Employers' pension contributions	Pension Contributions have been budgeted at 15.9% for the period 2014/15 to 2016/17
Revenue balances insufficient to meet other inflationary increases	Other than contractual agreements, budgets have been cash limited where possible.
Interest rates resulting in significant variations in estimated interest income	The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncertainty on the investment strategy. (see Treasury Management Strategy at Appendix 11)
Inaccurate estimates of fees and charges income	See Key Budget Indicators shown in the latest Finance Digest on the Council's intranet
Revenue balances insufficient to meet loss of partial exemption for VAT	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs. The new market management arrangement may increase this risk
Major emergency	Major Emergency requires funds beyond Belwin scheme and causes serious drain on balances
The estimated cost reductions and additional income gains are not achieved	Savings identified in 2014/15 will be monitored as part of the monthly Finance Digest process.
The Council is faced with potential litigation and other employment related risks	The Council has one outstanding litigation case.
The amount of government grant is adversely affected	The grant settlement for the 2 year period 2014/15 and 2015/16 has been factored into the MTFS along with a 5% decrease for 2016/17.
Fluctuations in Business Rates Retention	The Council is legally obliged to cover the first 7.5% loss on its pre determined baseline level.
Right to Buy Receipts & VAT Shelter Receipts	Under the Housing stock transfer with Watford Community Housing Trust (WCHT) the Council is entitled to use its share of the proceeds to fund the capital programme. The level of activity on both these income streams are outside the Council's control.

This page is intentionally left blank

CAPITAL PROGRAMME

Capital Schemes		2013/14	2014/15	2015/16	2016/17	2017/18
CC	General Fund Capital Schemes	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
WA6920	Key Projects					
WAA920	Cardiff Road Health Campus	277,180	1,450,000	0	0	0
WAA923	Cardiff Road Health Campus-Contribution to LABV	0	1,500,000	1,500,000	0	0
WAA927	Cardiff Road Health Campus-Loan to WHHT	0	2,000,000	0	0	0
WAA167	Contribution to Croxley Rail Link	0	2,532,014	0	0	0
WAA983	Cultural Quarter Phase 1	3,487,328	633,483	89,710	0	0
WAA954	Green Spaces Strategy	193,854	60,000	0	0	0
WAA211	New Market	2,537,420	100,000	0	0	0
WA6921	Environmental Services					
WAJ602	Carbon Management / Climate Change	27,000	0	0	0	0
WAJ300	Decent Homes Assistance (Privately Owned)	110,000	200,000	200,000	0	0
WAJ800	Environmental Services Scheme (Empty Homes Assistance)	75,000	0	0	0	0
WAJ600	Environmental Services Scheme (Handyman Assistance)	15,000	0	0	0	0
WAA992	Green Waste Bins	0	18,000	18,000	0	0
WAA151	5 New Collection Vehicles (DCLG Funded)	693,165	0	0	0	0
WAA162	30,000 Wheelie Bins (DCLG Funded)	548,620	0	0	0	0
WAA174	1,100 Eurobins (DCLG Funded)	173,485	0	0	0	0
WAA175	JCB Excavator	60,500	0	0	0	0
WAA176	Parks Equipment (6 Doe mechanised mowers)	148,024	0	0	0	0
WAA177	Johnson Sweepers (3)	205,845	0	0	0	0
WAA178	Cages (5)	174,341	0	0	0	0
WAA179	Lister Pick Up Trucks (2)	40,050	0	0	0	0
WAA180	Large Van (Graffiti)	38,737	0	0	0	0
WAA181	Street Furniture Van	29,953	0	0	0	0
WAA182	Flail & Gator (2)	33,989	0	0	0	0
WAA183	POV Electric Cart (1)	15,250	0	0	0	0
WAA975	Recycling Boxes	20,000	20,000	0	0	0
WAA161	Replacement Domestic Bins	20,000	20,000	20,000	0	0
WA6922	Community & Leisure Services					
WAA201	Allotments Upgrades	110,000	1,300,000	0	0	0
WAB966	Cassiobury Park HLF Project	302,838	300,000	0	0	0
WAA202	Farm Terrace Allotments relocation	90,000	660,000	0	0	0
WAA219	Hurling Club Relocation	100,000	850,000	0	0	0
WAA959	St Mary's Tombs	99,292	0	0	0	0
WA6923	Housing Services					
WAJ203	Affordable Housing	3,577	0	0	0	0
WAA987	Bringing Standalone Properties to Decent Homes Standard	50,000	50,000	50,000	50,000	50,000
WAJ100	Disabled Facility Grants	550,000	400,000	400,000	400,000	400,000

Capital Schemes		2013/14	2014/15	2015/16	2016/17	2017/18
CC	General Fund Capital Schemes	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
WA6924	Parking Services					
WAA950	Upgrading / Resurfacing of Car Parks	75,589	0	0	0	0
WA6925	Asset Management					
WAA172	Ascot Road Regearing Valuation Support	50,000	0	0	0	0
WAA203	Atrium Phase 5 (GIS & Cad Intergration)	34,000	0	0	0	0
WAA995	Building Investment Programme	515,969	440,000	440,000	400,000	400,000
WAA210	Car Parks Structural Surveys	70,000	15,000	10,000	0	0
WAA991	Veolia Capital Improvements	60,000	60,000	60,000	60,000	60,000
WAA994	Depot Refurbishment	42,461	0	0	0	0
WAA163	Property Asset Management System.	3,815	0	0	0	0
WAA185	Watford Business Park Redevelopment	200,000	100,000	0	0	0
WAA963	Town Centre CCTV Relocation	485,131	0	0	0	0
WAA952	Match Funding Projects	0	35,000	35,000	20,000	20,000
WAA166	Voice Automated Telephony	30,000	0	0	0	0
WA6926	ICT					
WAA134	Environmental Health System	147,939	45,000	45,000	0	0
WAA132	ICT - Document Management Processing	0	15,000	0	0	0
WAA109	ICT-Hardware Replacement Prog	70,000	80,000	80,000	80,000	80,000
WAA221	ICT-Project Management Provision	120,000	120,000	120,000	120,000	120,000
WA6927	ICT - Shared Services					
WAA982	ShS - Hardware Replacement Programme	18,000	18,000	18,000	0	0
WAB925	ShS - HR CPD Module	3,600	0	0	0	0
WNC036	ICT Development	200,000	0	0	0	0
WAA601	Corporate / Service Project Management	552,470	552,470	500,000	400,000	400,000
WA6990	New Schemes Requiring Approval					
WAA212	Telephony-Cost of Replacement server		10,000			
WAA213	Pop Up Toilets automation and refurbishment		35,000			
WAA214	Museum CCTV and Intruder alarm syste		50,000			
WAA215	Town Centre CCTV Camera Replacement		21,000	21,000	21,000	
	Total General Fund Capital Schemes	12,909,422	13,689,967	3,606,710	1,551,000	1,530,000
Capital Schemes		2013/14	2014/15	2015/16	2016/17	2017/18
CC	Section 106 Funded Schemes	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
WA6928	Section 106 Funded Schemes					
WAB944	Berry Avenue Play Area	0	60,000	0	0	0
WAB947	Callowland Recreation Ground	395,704	0	0	0	0
WAB964	Centennial House Landscaping & Maintenance	390	210	0	0	0

Capital Schemes		2013/14	2014/15	2015/16	2016/17	2017/18
CC	Section 106 Funded Schemes	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
WAB961	Cherry Tree Allotments	0	12,000	0	0	0
WAB951	Colne River Project	508,171	250,000	0	0	0
WNC004	Colne Valley Improvements	0	8,699	0	0	0
WNC018	Cow Lane Improvements	23,000	0	0	0	0
WAB300	Croxley Rail Link	0	587,630	0	0	0
WAB940	East Drive Play Area	0	120,000	0	0	0
WAB936	Eastcourt Road Improvements	15,000	0	0	0	0
WAB952	Fern Way Play area landscaping	0	15,000	0	0	0
WAB959	Garston Park	62,000	0	0	0	0
WAB938	Goodwood Rec Play Area improvements	448	5,000	0	0	0
WAB941	Harebreaks Rec Ground Play Area	121,000	0	0	0	0
WAB931	Himalayan Way Play Area	0	98,942	0	0	0
WAB932	Jellicoe Road Play Area improvements	845	6,893	0	0	0
WAB950	King George V Playing Field	298,694	0	0	0	0
WAB954	Knutsford Road	49,500	0	0	0	0
WAB962	Local Nature Reserves	24,300	20,000	0	0	0
WAB958	Local Park Improvements	62,294	62,500	0	0	0
WAB943	Meriden Park Play Area	28,000	0	0	0	0
WNC022	Multi-use Games at Meriden	0	120,000	0	0	0
WAB956	North Watford Cemetery	71,000	0	0	0	0
WAB949	Oxhey Park	515,478	0	0	0	0
WAB953	Radlet Road MUGA	0	30,000	0	0	0
WAB946	Ridgehurst Avenue Play Area	0	50,000	0	0	0
WAB948	Riverside Recreation Ground	323,499	0	0	0	0
WAB935	Skate Park improvements	30,000	0	0	0	0
WAB945	Southwold Road Play Area	0	50,000	0	0	0
WAB930	St. Johns Road Play Area	4,136	0	0	0	0
WAB957	Vicarage Road Cemetery	71,000	0	0	0	0
WAB942	Waterfields Rec Play Area	123,460	0	0	0	0
WAB211	Watford Museum	12,500	0	0	0	0
WA6928	Total Section 106 Funded Schemes	2,740,419	1,496,874	0	0	0
Capital Schemes		2013/14	2014/15	2015/16	2016/17	2017/18
CC	Summary of Schemes	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
WA6920	Key Projects	6,495,782	8,275,497	1,589,710	0	0
WA6921	Environmental Services	2,428,959	258,000	238,000	0	0
WA6922	Community & Leisure Services	702,130	3,110,000	0	0	0
WA6923	Housing Services	603,577	450,000	450,000	450,000	450,000
WA6924	Parking Services	75,589	0	0	0	0
WA6925	Asset Management	1,491,376	650,000	545,000	480,000	480,000
WA6926	ICT	337,939	260,000	245,000	200,000	200,000
WA6927	ICT - Shared Services Joint Committee	221,600	18,000	18,000	0	0
WA6928	Section 106 Funded Schemes	2,740,419	1,496,874	0	0	0
WA6929	Corporate / Service Project Management	552,470	552,470	500,000	400,000	400,000
WA6990	New Schemes Requiring Approval	0	116,000	21,000	21,000	0
WA4900	Total All Schemes	15,649,841	15,186,841	3,606,710	1,551,000	1,530,000

Capital Schemes		2013/14	2014/15	2015/16	2016/17	2017/18
	Capital Programme Financing	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
	General Fund Programme	12,909,422	13,689,967	3,606,710	1,551,000	1,530,000
	S106 Programme	2,740,419	1,496,874	0	0	0
	Total Capital Programme	15,649,841	15,186,841	3,606,710	1,551,000	1,530,000
	Grants & Contributions	941,274	439,000	489,000	439,000	239,000
	Reserves	4,277,912	1,658,324	1,288,000	0	0
	Capital Receipts	6,952,792	12,756,807	1,829,710	1,112,000	1,291,000
	S106 Contributions	3,477,863	332,710	0	0	0
	Total Capital Financing	15,649,841	15,186,841	3,606,710	1,551,000	1,530,000

		2013/14	2014/15	2015/16	2016/17	2017/18
	Available Funding - Capital Receipts	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
	Balance Brought Forward	12,616,330	13,252,005	3,495,198	3,665,488	3,853,488
	Used for Financing	(6,952,792)	(12,756,807)	(1,829,710)	(1,112,000)	(1,291,000)
	In-Year Capital Receipts	7,588,467	3,000,000	2,000,000	1,300,000	2,000,000
	Balance Carried Forward	13,252,005	3,495,198	3,665,488	3,853,488	4,562,488

		2013/14	2014/15	2015/16	2016/17	2017/18
	Available Funding - Section 106	Current Budget £	Current Budget £	Current Budget £	Current Budget £	Current Budget £
	Balance Brought Forward	4,875,415	1,677,552	1,509,842	1,524,842	1,542,342
	Used for Financing	(3,477,863)	(332,710)	0	0	0
	In-Year Capital Receipts	250,000	150,000	0	0	0
	Interest	30,000	15,000	15,000	17,500	20,000
	Balance Carried Forward	1,677,552	1,509,842	1,524,842	1,542,342	1,562,342

TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15 – 2016/17

1.0 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators.

Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2014/15 to 2016/17 is included to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

2.0 The Capital Plans and Prudential Indicators 2014/15 – 2016/17

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

The Council's capital expenditure plans are due to be approved by Cabinet and Council on 20 January and 29 January 2014 respectively and form the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regards to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants etc., or revenue resources), but if these resources are insufficient any residual capital expenditure will affect the Council's borrowing need.

The key risks to the plans are that the level of capital receipts may be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the poor condition of the property market.

Approving capital expenditure plans is the first prudential indicator.

3.0 The Council's Borrowing Need - The Capital Financing Requirement (CFR)

The second prudential indicator is the Council's CFR which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

Following accounting changes, the CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Capital Financing Requirement	£2.5m	£2.4m	£2.3m	£2.2m	£2.1m
Adjustment A	£2.5m	£2.4m	£2.3m	£2.2m	£2.1m
Movement in the CFR	£0.5m*	£0.1m	£0.1m	£0.1m	£0.1m

* Includes MRP of £0.1m and voluntary contributions to reduce the CFR of £0.4m.

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

Watford Council's approach has been to comply with the previous MRP regulations which allowed for an adjustment A which allowed debt free authorities to continue to **not** make an MRP. Any new capital expenditure if unfunded and requiring credit cover above adjustment A would however need to generate a MRP.

4.0 Minimum Revenue Provision (MRP) Strategy and Policy Statement

Communities and Local Government Regulations have been issued which require Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

The Council is gradually paying down its CFR as a result of Minimum Revenue Provisions relating to finance leases. The Council has borrowed £6m from the Growing Places Fund in 2013/14 to fund the Health Campus Scheme. This funding has a reasonable expectation of a repayment return within the period of the loan (5years) and, under CLG regulations no MRP would be necessary. Another £4m of potential borrowing has yet to be earmarked and it is feasible that an investment return would be realised too far in the future. In these circumstances, and to provide maximum flexibility, a provision within the accounts of £150k per annum by way of a Minimum Revenue Provision is recommended from 2015/16 onwards (as the MRP Regulations do not require the provision to be made until the year following the taking of any loan which would not be until 2015/16 at the earliest).

This £150k is calculated on the **Asset Life Method whereby** MRP will be based on the estimated life of the assets and is in accordance with the proposed regulations. It is anticipated that this £150k addition to revenue can be accommodated in 2015/16 without increasing the use of reserves currently earmarked / estimated within the Medium Term Financial Strategy.

Other options include the **Depreciation method** – MRP will follow standard depreciation accounting procedures and again is related to the life of the asset.

5.0 Treasury Indicators: Limits to Borrowing Activity

Long Term Borrowing

The Council has previously been debt free. At the present time the council has access to a number of sources of external funding which have historically low borrowing costs. So for example, Growing Places Funding can either be interest free or geared to Public Works Loans Board rates which are themselves currently very low. As part of the Health Campus project the council has borrowed on behalf of the LABVI, £6.0m from the Growing Places Fund.

Treasury Management Indicator - The Operational Boundary

This is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes. As the council already has a loan of £6.0m with Growing Places and no plans to borrow for other capital purposes in the next three years, it would be prudent to set the operational boundary at £10m.

Operational Boundary	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing	£10m	£10m	£10m	£10m

Treasury Management Indicator - The Authorised Limit for External Borrowing

This represents a control on the maximum level of borrowing. It is the limit beyond which external long and short term borrowing is prohibited, and this limit needs to be set or revised by the Council. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing	£13m	£13m	£13m	£13m

Treasury Management Indicator – Actual External Debt

This is the closing balance for actual gross borrowing obtained directly from the council's Balance Sheet at year end.

The Audit Committee / Council are asked to approve the Operational Boundary and the Authorised Limit.

6.0 Treasury Management Issues

6.1 Treasury Management Strategy

The treasury management strategy is an important part of the overall financial management of the Council and it is a requirement that it is adopted by Council as one of the prudential indicators.

The Constitution requires a strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced

after the year-end to report on actual activity for the year. There is also a requirement for a mid-year monitoring report. This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels(borrowing activity);
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Specific limits on treasury activities;
- Treasury performance indicators;
- Treasury advice;
- Bank tender process;
- Training of Officers and Members.

The capital expenditure plans set out to provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.2 Current Portfolio Position

The Council's treasury portfolio position at 31 March 2013, with forward projections are summarised below.

Treasury Portfolio	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Total Investments 31 March	£28.111m	£22.000m	£15.000m	£8.000m	£1.000m
Investment Change	-3.44%	-21.74%	-31.82%	-46.67%	-87.50%

Another key prudential indicator is that the Council needs to ensure that its total borrowing, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/15 and the following two financial years (shown as long term borrowing above).

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals within this report regarding future external borrowing.

6.3 Prospects for Interest Rates

The Council has appointed Capita Asset Services (sector) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

Annual Average %	Bank Rate	PWLB Borrowing Rates % (including certainty rate adjustment)		
Month / Year	%	5 year	25 year	50 year
Dec 2013	0.50	2.50	4.40	4.40
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.40	4.40
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.50	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.20	5.00	5.10
Jun 2016	0.50	3.30	5.10	5.20
Sep 2016	0.75	3.50	5.10	5.20
Dec 2016	1.00	3.60	5.10	5.20
Mar 2017	1.25	3.70	5.20	5.30

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 and 2 of 2013 to surpass all expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.

A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt, in some countries, continue to rise to levels that compound already existing concerns. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

6.4 Borrowing Strategy

The Council has a number of regeneration projects and it is probable that the Council will need to take up external medium term borrowing in order to pump prime necessary infrastructure works. This report has highlighted elsewhere the need to permit a long term borrowing (over 365 days) facility of up to £13m. This loan facility should however provide future investment returns well in excess of conventional investment rates of interest.

6.5 Annual Investment Strategy

Key Objectives

The Council's investment strategy's primary objectives are safeguarding the re-payment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. The current economic ensures that the current investment climate has one over-riding priority which is the management of counterparty security risk.

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then yield:

S ecurity

L iquidity

Y ield

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

Creditworthiness policy

The Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary and will provide an overall pool of counterparties considered high quality.

The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one

meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

Counterparty Categories

The Council uses the following criteria in choosing the categories of institutions in which to invest:

- **Banks 1 - Good Credit Quality**
The Council will only use UK banks or foreign banks trading in the UK in sterling denomination and which meet the Rating criteria.
- **Banks 2 – Eligible Institutions**
The Council will use organisations considered an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. Note: Capita (Sector) advice is for a cautious approach when using these Institutions.
- **Banks 3 – The Council's Own Banker**
For transactional purposes, if the bank falls below the above criteria, it will be included, although in this case balances will be minimised as far as possible in both monetary size and time within operational constraints.
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above and the parent has provided an indemnity guarantee.
- **Building Societies**
The Council will use all Societies which:

Either,
(i) **Meet the ratings for banks outlined above; or,**
(ii) **Are eligible Institutions; and have assets in excess of limits for each category.**
- **Specific Public Bodies**
The Council may lend to Public Bodies other than Local Authorities. The criterion for lending to these bodies is that the loan has been approved by Council.
- **Money Market Funds AAA Rated**
The Council may lend to Money Market Funds in order to spread its investment risk.
- **Local Authorities**
A limit of £2m per authority will be applied.
- **Debt Management Deposit Account Facility**
A Government body which accepts local authority deposits.

Country and Sector Considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above.

Use of Additional Information Other Than Credit Ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary Limits Applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List summarised in the table below, are driven by the above criteria. These limits will cover both Specified and Non-Specified Investments.

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

Exceptional Circumstances

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions Director of Finance may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMO) – a Government body which accepts local authority deposits, Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase / decrease in all interest rates to the estimated treasury management costs / income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Revenue Budgets	2014/15 Estimated + 1% £m	2014/15 Estimated - 1% £m
Interest on Borrowing	0.130	-0.130
Investment income	0.185	-0.185

6.6 Investment Strategy

In-House Funds - investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment Returns Expectations - bank rate is forecast to remain unchanged at 0.50% before starting to rise from quarter 1 of 2016/17. Bank rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

The suggested budgeted investment earnings rates for returns on investments during each financial year for the next four years are as follows:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 0.75%

Investment Treasury Indicator and Limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Treasury Indicator & Limit	2014/15	2015/16	2016/17
Maximum Principal Sums Invested > 364 days	£2m	£2m	£2m

6.7 Investment Risk & Security Benchmarking

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.01% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m.
- Liquid short term deposits of at least £2m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5years, with a maximum of 10 years for an individual loan with a public body.

Yield - Local measures of yield benchmark is (Performance Indicator):

- Investments – returns 0.12% above average bank rate.

Security of the investments – in context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch/Moody's Standard and Poors long term rating category over the period 1990 to 2009.

Years	1	2	3	4	5
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%
BB	1.22%	3.24%	5.34%	7.31%	9.14%
B	4.06%	8.82%	12.72%	16.25%	19.16%
CCC	24.03%	31.91%	37.73%	41.54%	45.22%

The Council's minimum long term rating criteria is currently "AA", meaning the average expectation of default for a one year investment in a counterparty with an "AA" long term rating would be 0.03% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council's investments in rated institutions are all for periods of less than one year, so the average loss will be scaled down by the length of investment.

The Council's maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0.01% historic risk of default when compared to the whole portfolio.

As the Council has no investment in rated institutions for more than 364 days, the security benchmark for more than one year is not applicable:

Security Benchmark	1 year	2 years	3 years	4 years	5 years
Maximum	0.01%	N/A	N/A	N/A	N/A

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

6.8 Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The performance indicators used by this Council for the treasury function is:

- Investments – returns 0.12% above average bank rate.

The results of this indicator will be reported in the Treasury Annual Report.

6.9 Reporting Requirements

End of Year Investment Report - after the end of the financial year, the Council will report on its investment activity for the financial year completed as part of its Annual Treasury Management Report (June following financial year end).

Mid-year Investment Report - in the middle of the financial year, the Council will report on its investment activity for that financial year as part of its Mid Year Treasury Management Report (October/November of that financial year).

Treasury Management Strategy – for the next three financial years after the end of the current financial year (January).

6.10 Policy on the Use of External Service Providers

The Council uses Capita (Sector) as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6.11 Bank Tender Process

The Council has completed the Bank Tender process and has awarded the contract for Watford banking services to Lloyds Bank. They will be operational from 01 April 2014 replacing our current banking service provider Co-Operative Bank.

6.12 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- Ensuring that officers attend suitable courses and seminars to keep their technical knowledge up to date;
- Keeping up to date with CIPFA publications on Treasury Management;
- Regular briefings both by e mail and face to face with the Council's consultants;
- Reports and briefing sessions to Members on major changes to Treasury policies and strategies.

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced this Treasury Management Practices (TMP's) guidance.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security, and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – the main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – these investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. A local authority, parish council or community council.
3. A body that is considered of a high credit quality (such as a bank or building society) with a minimum short term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies or a Building Society with assets over £5,000m. Non rated Building Societies are non-specified investments.
4. Money Market Funds (triple AAA rated only).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

The ratings criteria and exposure limits are detailed at **Schedule 1**.

There are exceptions to the schedule and, in accordance with Capita (Sector) advice, RBS Group should continue to be included within the counterparty list even though Moody's has downgraded them to P-2 (which is below the ratings limits). This is because the RBS Group is 82% Government owned and is therefore considered to be 'secure'. The Audit Committee / Council has previously approved that a £10m ceiling is permitted for investments with RBS. In addition, for Lloyds Banking Group and RBS Group investments with a maturity of 12 months is permitted whereas for all other banking and building society institutions a 6 month maturity limit is currently in operation.

Non-Specified Investments – non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
a.	Any bank or building society that has a minimum long term credit rating of A (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£2m or 10%
b.	The Council's own banker if it fails to meet the basic credit criteria.	£5m maximum ceiling
c.	Building Societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which were originally considered Eligible Institutions and have a minimum asset size of £5,000m, but will restrict these type of investments to £2m for up to six months.	£2m
d.	Specific Public Bodies The Council can seek Member approval to make loans to other public bodies for periods of more than one year.	£2m

In accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are defined in the Treasury Management Strategy.

In respect of category d this will only be considered after obtaining external advice and subsequent Member approval.

The Monitoring of Investment Counterparties - the credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita (Sector) as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

Institution Type	Max Amount:			£5m	£10m	£10m	£10m	£10m
	Max Length:			10 Years	364 Days	6 Months	3 Months	1 Month
Minimum Short Term Ratings								
	Fitch	Moody's	S&P					
UK Banks								
Banks with Clearing Status in the United Kingdom	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
The Co-Operative Bank: Call Account a £10m maximum ceiling. The funds are capable of being 'called back' with one day's notice.	F1	P-1	A-1		Not Applicable	Not Applicable	Not Applicable	Not Applicable
The Council's own Bankers	F1	P-1	A-1	If Council's own bankers fall below the minimum long term criteria for UK banks, cash balances will be managed within operational liquidity constraints and up to a maximum of £5m.				
Wholly Owned Subsidiaries of UK Clearing Banks - Parent Ratings	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Partially Owned Subsidiaries of UK Clearing Banks - Parent Ratings		P-1	A-1	F1	Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
UK Building Societies								
Either	F1	P-1	A-1		Backed up by AA(F), Aa2(M) and AA(S&P) long term credit rating	Backed up by single A long term ratings by all agencies	Backed up by lower than A long term rating	Backed up by lower than A long term rating
Or					Assets over £5,000m	Assets over £5,000m	Assets of £5,000m	Assets of £5,000m
Specific Public Bodies				As approved by Members				
Money Market Funds (AAA Rated)								£5m per fund
UK Local Authorities				The Council can invest in all UK Local Authorities whether rated or not				

Notes:-

1. F1+, P-1 and A-1+ are the highest short term credit ratings of Fitch, Moody's and Standard and Poor's respectively.
2. Minimum Short Term Ratings - Where given, these must be met, for all categories (except RBS Group).
3. Building Societies - A Building Society has to meet either the ratings criteria or the assets criterion to be included in the category, not both.
4. Maximum amount is the maximum, in total, over all investments, with any one institution (with the exception of RBS Group).