



# BUDGET PANEL

**Wednesday, 10th July, 2013**

**7.00 pm**

**Town Hall, Watford**

**Publication date: 2 July 2013**

**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 in Legal and Property Services on 01923 278377 or by email to [legalanddemocratic@watford.gov.uk](mailto:legalanddemocratic@watford.gov.uk) .

Welcome to this meeting. We hope you find these notes useful.

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# 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

1. **APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**
2. **DISCLOSURE OF INTERESTS (IF ANY)**
3. **MINUTES**

The minutes of the meeting held on 11 March 2013 to be submitted and signed.  
*(All minutes are available on the Council's website.)*

4. **FINANCIAL OUTTURN 2012/2013** (Pages 1 - 22)

Report of Head of Strategic Finance

To consider the attached report to Cabinet on 8<sup>th</sup> July 2013.

Appendix 2 is also printed separately

5. **MEDIUM TERM FINANCIAL STRATEGY 2013-2017** (Pages 23 - 36)

Report of Head of Strategic Finance

This report informs the Budget Panel of the report to go to Cabinet on 8<sup>th</sup> July 2013.

6. **WORK PROGRAMME 2013/2014** (Pages 37 - 38)

The Panel is asked to review the work programme and consider what it would like to be programmed in over the coming year.

Members are also asked to consider any training requirements for inclusion in the programme.

7. **DATES OF NEXT MEETINGS**

- Tuesday 10 September 2013
- Tuesday 29 October 2013
- Tuesday 26 November 2013

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# Agenda Item 4

**Report to:** Budget Panel  
**Date of meeting:** 10th July 2013.  
**Report of:** Head of Strategic Finance  
**Title:** The 2012 / 2013 Financial Outturn)

## **1.0 SUMMARY**

1.1 To consider the attached report to Cabinet on 8<sup>th</sup> July 2013.

## **2.0 RECOMMENDATIONS**

2.1 Whether Budget Panel wish to make any observations to the Cabinet meeting in September 2013.

### **Contact Officer:**

For further information on this report please contact Bernard Clarke, Head of Strategic Finance, telephone extension 8189, email [bernard.clarke@watford.gov.uk](mailto:bernard.clarke@watford.gov.uk)

**3.0 INTRODUCTION**

3.1 Included in attached report.

**4.0 FINANCIAL IMPLICATIONS**

4.1 Included in attached report.

**5.0 LEGAL IMPLICATIONS**

5.1 Included in attached report.

**6.0 POTENTIAL RISKS**

6.1 Included in attached report.

**7.0 EQUALITIES**

7.1 Included in attached report.

**Appendices**

Report to Cabinet, 8<sup>th</sup> July 2013.

## Agenda Item: 6

**Report to:** Cabinet  
**Date of meeting:** 8th July 2013  
**Report of:** Head of Strategic Finance  
**Title:** Summary of the Financial Outturn 2012/ 2013

### 1.0 SUMMARY

1.1 This report informs Cabinet of the revenue and capital outturns for 2012/2013.

### 2.0 RECOMMENDATIONS

- 2.1 To consider the revenue outturn as summarised at Appendix 1A, and supplementary notes at Appendices 1B to 1E and to note that a variance of £283k has occurred. It should be noted however that this apparent 'overspend' included a voluntary additional payment of £750k into the Council's Pensions Fund and that the true position was an effective under spend of £467k.
- 2.2 To approve that specific unspent budgets have been carried forward into 2013/2014 in the sum of £234,910 and as detailed at Appendix 1D.
- 2.3 To consider the Reserves statement at Appendices 1E and note that the overall level of revenue reserves has increased by £277,354. It is also recommended that the following transfers between reserves should be approved:
- the Climate Change Reserve be increased by £20k
  - the Housing Benefit Subsidy Reserve should reduce by £300k
  - the Invest to Save Reserve should increase by £200k
  - the Economic Impact Reserve should increase by £60k
  - a new reserve 'Market Promotion Reserve' should be set up with a balance of £20k.
- 2.4 To consider the capital outturn as detailed at Appendix 2 and note that the Council's present and future holding of capital receipts is fully committed.

#### Contact Officer:

For further information on this report please contact Bernard Clarke, Head of Strategic Finance, telephone extension 8189, email [bernard.clarke@watford.gov.uk](mailto:bernard.clarke@watford.gov.uk)

### **3.0 INTRODUCTION**

3.1 A key feature of the reporting of the Final Outturn for any financial year is to compare the actual position with the original estimate and forecast budget monitoring statements produced throughout the year. This comparison is essential as it provides an indication of the accuracy and robustness of financial control within the Council.

3.2 It is important as part of that process that guidance is provided, as a simple comparison will not necessarily present a fair reflection of a constantly evolving situation. This report will hopefully provide a meaningful analysis of the revenue and capital outturns for 2012/2013. The more technical detail of the Final Outturn is reflected within the audited Statement of Accounts that will be reported to the Audit Committee on 25<sup>th</sup> September 2013.

### **4.0 ORIGINAL ESTIMATES 2011/2012**

4.1 The original revenue estimates were approved by Council on 25th January 2012 and have been summarised at **Appendix 1A** and indicated net General Fund expenditure of £14,897k.

### **5.0 BUDGET MONITORING: THE FINANCE DIGEST**

5.1 Watford Council has a well developed budget monitoring system which compares original estimates with a forecast end of year financial outturn. The last reported budget monitor as at end of January 2013 (Period 10) forecast an overall overspend of £67k and comprised additional expenditure to be financed from earmarked reserves of £488k and a general under spend of £421k. Had this been the final position for 2012/2013 then the General Fund Budget would have been £14,964k.

### **6.0 SUMMARISED REVENUE OUTTURN 2012/2013**

6.1.1 **Appendix 1A** summarises the actual outturn for 2012/2013 when compared to the Original Estimate and Budget Monitor/ Finance Digest forecast and indicates a General Fund expenditure outturn of £15,057k (an overspend of £160k compared to original budget, and £93k compared to the forecast).

6.1.2 Appendix 1A also shows the funding earmarked to cover this expenditure and indicates £15,400k of funding from central government and council tax was originally anticipated. The outturn position was £15,277k with the difference of £123k being due to the fact that the first instalment of New Homes Bonus funding for 2012/2013 was actually received in the previous financial year (2011/2012).

6.1.3 The net effect of expenditure and its financing was an original surplus of funding of £503k (to be transferred to the Vehicle Replacement Fund and the Economic Impact Reserve) whereas the outturn shows a surplus of £220k. There has therefore been a variance of £283k between original estimate and outturn (and reflects the £160k and £123k referred to above).

6.2.1 **Appendix 1B** provides detail of the major variances that actually occurred. The following additional notes provide an element of further explanation:



## 6.2.2 **Favourable**

- additional income of circa £377k was achieved from areas such as hostel and bed and breakfast income and recycling.
- additional commercial rent of £305k was realised across the property portfolio.
- additional investment interest of £104k accrued due to the size of the portfolio being larger than anticipated.
- building maintenance costs showed a revenue saving of £390k due to a larger proportion of the programme being financed from capital receipts.
- ongoing procurement savings of £357k accrued and was mainly due to the rationalisation of gas and electricity contracts.
- salaries and agency costs showed a £95k under spend
- pay inflation under spend of £135k due to there being no pay ward.

## 6.2.3 **Adverse**

6.2.3.1 Revenues and benefits was the one area which showed a particularly disappointing result which can be broken down as follows:

- salaries and agency overspend (Watford's proportion) was £310k and reflects the increased caseload being experienced.
- reduced income from court costs of £118k due to not taking up as many court days as anticipated
- additional cost of discretionary rate relief to businesses of £76k which had been forecast very early in the financial year.
- additional net cost of rent allowances largely due to an increasing volume of claimants (£646k) . To illustrate this, the amount of subsidy claimed for 2011/2012 was £32.8m; for 2012/2013 it had increased to £35.3m. The Council is not reimbursed 100% of payments it has made. So for example, where an overpayment has been made only 40% of the value is reimbursed. In 2012/2013 overpayments to the value of £896k were made (£760k in previous year). The Council may well recover a part of these overpayments from claimants but it clearly will always be in arrears. Further, where there is local authority error (£305k, 2012/2013; £289k, 2011/2012), then no subsidy is received. The Benefits Division has not been up to date in processing 'Atlas' notifications from the DWP and it is not known whether this has affected overpayments (all Atlas payments have now been processed but only 15,726 (out of 23,297) had been actioned as at April 2013.

6.2.3.2 Benefits has been identified as the key risk area where adverse variances may well occur. For that reason, the statement of reserves at Appendix 1E includes a Housing Benefit Subsidy Reserve of £997k and it is recommended that £300k of this reserve should be used to reduce this adverse variance.

## 6.2.3.3 **Additional Payment into the Pension Fund.**

There was one additional variance that helped contribute to the £283k adverse variance (compared to original estimate) and that relates to an end of year additional payment into the Council's Pension Fund. The background to this is that the last actuarial review was as at 31<sup>st</sup> March 2010, with the next review being 31<sup>st</sup> March 2013. Watford Council has always followed the HCC appointed actuaries

6.2.4 advice which should enable the current deficit to be eliminated in 20 years time.

6.2.4.1 In reality the period 2010/2013 has seen all pensions funds increase their deficits and is due to a combination of people living longer combined with very poor investment returns (due to the low interest rate environment). The Finance Period 10 Digest was forecasting a general under spend of £421k was likely (section 5 of report refers), and as a consequence, approval was received from the Mayor and Portfolio Holders to make an additional £750k payment into the Pension Fund. This is not an adverse variance as the benefit of this action will be experienced in future years. By making the payment before the end of the year it will be now reflected within the actuarial review due to commence shortly (the results of which will be known in December 2013).

6.2.4.2

Had this payment not been made then the ultimate £283k variance (original to Outturn) would have been transformed into a £467k under spend and which is comparable to the £421k forecast at the end of January 2013.

## 7.0 ANALYSIS OF DETAILED VARIATIONS, RESERVES & BALANCES

7.1 **Appendix 1C** analyses the salaries and agency outturn and shows an extremely encouraging result with an Original Budget of £14,522k and an Outturn of £14,427k, an under spend of £95k.

7.2 **Appendix 1D** details those unspent balances that Leadership Team recommend should be carried forward to 2013/2014 and is typically due to a delay in carrying out an initiative. Should Cabinet not approve this recommendation then it would put pressure upon the 2013/2014 revenue budget.

7.3.1 **Appendix 1E** details the end of year position regarding the Council's holding of reserves and balances and indicates that the General Fund Balance has remained at £1,350k and is in accordance with Council current policy. The earmarked/ general/ and capital related revenue reserves has increased by £277k. When preparing the budget for 2012/2013 (February 2012) it was anticipated that reserves would increase by £503k (£150k to Vehicle Replacement Reserve; and £353k to the Economic Impact reserve). There has therefore been an under performance of £226k which has largely due to the £283k variance covered within the Revenue Outturn report at Section 6 earlier.

7.3.2 As part of the closure of the final accounts, the opportunity is traditionally taken to review the levels of individual reserves with a view to making some cross reserves transfers. In that respect it is recommended that:

- the Climate Change Reserve should be topped up by an additional £20k (to give a closing balance of £56k) and will enable further initiatives to be funded in 2013/2014.
- a new reserve "Market Promotions Reserve" should be set up with a balance of £20k and can be accessed to support the new market
- the Housing Benefit Subsidy Reserve should be reduced by £300k to help fund the revenue and benefits overspend in 2012/2013.
- the Invest to Save Reserve should be topped up with a further £200k transfer (and will enable up front expenditure to be incurred in order to

- provide subsequent ongoing efficiency savings).
- the Economic Impact Reserve should be increased by the residual balance from the above transfers (£60k) and will help to maintain a cushion to meet future government funding reductions.

## 8.0 CAPITAL OUTTURN 2012/2013

8.1 A detailed analysis of the council's capital programme has been attached at **Appendix 2**. The overall position indicates main features (as summarised on the final page) include:

- an outturn spend (including Section 106) of £4,954k
- further programmed expenditure in 2013/2016 of £34,833k
- that uncommitted capital receipts will have been fully utilised with a small shortfall of £473k. There is however considerable scope to cover any shortfall by way of reductions to the capital programme, additional capital receipts, and access to the PWLB borrowing facility (£4m of which is uncommitted).

## 9.0 CONCLUSION

9.1 The 2012/2013 revenue outturn represents a good result against a national background of an economy at best 'flat' and potentially slightly recessionary. This has affected Watford Council particularly through its volume (and cost) of rent allowance payments. This however was more than compensated by favourable variances identified throughout the year and as part of Final Accounts closure. These favourable variances also permitted an additional payment to be made into the Council's Pensions Fund with no impact upon its holding of reserves and balances.

9.2 Reserves and balances have increased by £277k (although it was originally anticipated that this increase would be £503k. This preservation of reserves will provide a much needed 'buffer' in the years to come and will be discussed in far more detail when the Medium Term Financial Strategy is considered in detail in September 2013..

9.3 With regard to the capital outturn, the Council continues to have an ambitious programme which includes ensuring its infrastructure/ assets are well maintained as well as seeking to move forward through investment in key projects where the aim is to secure the future prosperity of the Watford area.

## 10.0 FINANCIAL IMPLICATIONS

10.1 These have been included within the report.

## 11.0 LEGAL IMPLICATIONS

11.1 There are no legal implications in the report.

## 12.0 POTENTIAL RISKS

Potential Risk	Likelihood	Impact	Overall Score
That the External Auditor finds material errors within the Final Accounts process	2	4	8

## 13.0 EQUALITIES

13.1 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 to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions.

13.2 The reporting of the Final Outturn for 2012/2013 does not have any direct equality implications. In effect it is reporting upon the financial consequences of policies already established by the Council and is not seeking to change those policies in any way.

### **Appendices:**

Appendix 1A Revenue Account General Fund Summary 2012/2013

Appendix 1B Major Variations 2012/2013

Appendix 1C Salary and Agency Summary

Appendix 1D Carry Forward requests into 2013/2014

Appendix 1E Summary of Reserves

Appendix 2 Capital Outturn

Appendix 1A

Service Area	Original	Forecast	Actual	Original	Actual - Forecast
Community Services	5,038	4,718	4,545	-493	-173
Environmental Services	5,703	5,712	5,485	-218	-227
Planning	1,171	1,229	1,273	102	44
Corporate Management	448	309	390	-58	81
Legal And Property Services	-1,621	-1,392	-2,181	-560	-789
Shared Services Implementation	30	30	0	-30	-30
Shared Services	3,815	4,043	4,107	292	64
Strategic Finance	313	315	1,438	1,125	1,123
	14,897	14,964	15,057	160	93
Taxation & Non-Specific Grants	-15,400	-15,400	-15,277	123	123
Funding less net expenditure	-503	-436	-220	283	216

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APPENDIX 1B

Revenue Outturn: Major Variances

Description	Original £K	Forecast (Period 10) £K	Outturn £K	Variance to Original £K	(For accountability use only)
Hostels-Rent Income	-475	-500	-527	-52	JAJ000-I0901
B&B Income	0	-78	-88	-88	JAN000-I0905
Parks/Waste/Street Cleansing (Veolia)	0	94	126	126	KNN + KNS + KKA000 + KKAI
Town Centre Events	151	134	110	-41	DDI
Community Safety	70	0	-1	-71	ABE000D0902
Customer Service Centre	4	55	73	69	ADX000- non-sals
Recycling-kerbside HCC	-137	-162	-178	-41	KMH000-J0202
Recycling sales	-234	-271	-288	-54	KMH000-I000
Recycling-other income	-188	-188	-241	-53	KMH000-J0204
Building maintenance	740	637	350	-390	FKE000-B0000
Harlequin: Rent	-1,492	-1,300	-1,358	134	FLC000-I0901
Misc Properties: Rent	-1,047	-972	-1,230	-183	WA8340-I0900
Charter Place: Rent	-1,837	-1,672	-1,952	-115	WA8470-I0901
Parks and leisure: Rent	-127	-132	-179	-52	WA8410-I0900
Market: Income	-288	-288	-377	-89	WA8550-I0900
Market: Rates	54	-7	-5	-59	WA8550-B0401
WCs: Saving	-47	-47	0	47	WA7390-D1144
MSCP: Income	-780	-918	-869	-89	WA8430-I0900
Local Plan	57	64	142	85	GAA000
Planning Apps: Income	-313	-253	-272	41	GBA000-I0508
Parking: Avenue	-188	-144	-146	42	KFC000-I0623
Corporate Training	157	165	78	-79	AMC000-A0204
Finance SS	950	898	852	-98	WA6190
Insurance	263	263	188	-75	AXA900-D1102
Rate Relief	144	205	220	76	BAC900-F0108
Council Tax: Court Income	-310	-310	-192	118	BAD900-I0604
Council Tax SS	341	352	438	97	BAD900-E0101
CT Benefits	633	698	774	141	BAF900
Rent Allowances	-485	-485	161	646	BAK900 + BAK901
Interest Paid/ Received	-215	-215	-319	-104	WAT650
Redundancy	75	75	136	61	BJC000 + all redundancies
Pay Award	135	0	0	-135	BJC000
Pensions Payment	0	0	750	750	BJC000
Leasing	176	176	218	42	BJA400-M0103
Gas/ Electricity	1,181	1,095	824	-357	
New homes Bonus (recd previous year)	-1,516	-1,516	-1,393	123	BJA300-N0308
Salaries and Agency	14,522	14,500	14,427	-95	All A01..
	9,974	9,953	10,252	278	

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Salaries and Agency Costs 2012/2013

APPENDIX 1C

Service Area	Previous	Original	Agreed	Current	Total	Forecast	Actual
	Year Final Restated £000's	Budget £000's	Budget Change £000's	Budget £000's	Forecast Variance £000's	Outturn £000's	Outturn £000's
Community Services	3,065	2,840	39	2,879	-14	2,865	2,896
Environmental Services	5,648	5,876	4	5,880	-83	5,797	5,827
Planning	1,887	1,983	0	1,983	-16	1,967	1,939
Corporate Management	537	618	0	618	-139	479	372
Legal and Property Services	3,110	2,843	82	2,925	0	2,925	3,014
Shared Services Implementation	33	0	0	0	0	0	0
Strategic Finance	194	232	0	232	0	232	154
Consultancy	231	130	108	238	-3	235	225
Rounding Adjustment			1	1	-1		
<b>Total</b>	<b>14,705</b>	<b>14,522</b>	<b>234</b>	<b>14,756</b>	<b>-256</b>	<b>14,500</b>	<b>14,427</b>

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Ref	Dept	Section	Cost Centre	Account	Job	Amount	Narrative
1	Legal & Property Services	Elections	AGB000	D0101		16,570	Cover vacant post & rescheduled election
2	HR	Corporate Training	AMC000	A0204		30,000	Under-spend in 12/13 required to fund Step Programmes
3	Community Services	Small Grants Fund	AAN000	D0902		38,580	Support to Community Groups - underspend in 12/13 to be carried forward
4.1	Planning	Green Travel Plan	BEA001	I0623		7,530	Grand Union Canal Towpath Partnership Project - staff parking income
4.2	Planning	Green Travel Plan	BEA001	I0622		0	<i>N.B.: £372,400 Grand Union Canal Towpath Partnership Project - HCC and other partners. This is not the Council's money and so will be held in a separate personal account for use in future years.</i>
5	Planning	Transport - Implementation Team	BEA000	D0556		5,430	Subway Project
6	Legal & Property Services	Neighbourhood Forum - Callowland	AGL001	D0111		770	Installation of gates
7	Legal & Property Services	Neighbourhood Forum - Central	AGL002	D0111		990	Queens Road Notice Board
8	Environmental Services	Building Safer Communities	ABE013	J0135		10,000	Funding Domestic Homicide Review
9	Environmental Services	Cleansing - Probation Partner	KKB003	J0202	WJ0280	4,910	Probation match fund
10	Performance & Engagement	Partnerships & Performance	ADP000	D0902	WJ0023	8,710	One Watford (part C/F from 11/12) WBC funding
11	Environmental Services	Community Safety	ABE000	D0902	WJ0024	20,000	This funding is utilised for community safety projects, predominantly authorised through the Watford Responsible Authorities Group. The funding from HCC that supports this area of work has changed this year to the Police and Crime Commissioner, future funding provision is uncertain after this year.
12	Legal & Property Services	Legal Services Team	AHX000	A0101		16,000	Salary underspend to fund maternity leave cover and subsequent handover period
13	Performance & Engagement	Partnerships & Performance	ADP002	D0902		15,110	Watford Health Inequalities
14	Performance & Engagement	Partnerships & Performance	BLL001	D0902		22,770	Watford Learning Partnership
15	Revenues & Benefits	Discretionary Housing Payments				37,540	Balance from Housing to be C/F
						<u>234,910</u>	

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## Reserves 2012/13

Cost Centre	Description	Bal B/F 1-Apr-12 £	Net Reserve Move £	Bal C/F 31-Mar-13 £
VHF000	General Fund	-1,350,000	0	-1,350,000
	<b><u>Earmarked Reserves</u></b>			
VFD000	Car Parking Zones Reserve	-575,236	-21,699	-596,935
VGH000	Charter Place Tenants Reserve	-476,240	96,390	-379,850
VGU000	Le Marie Centre Repair Reserve	-12,868	0	-12,868
VHL000	Rent Deposit Guarantee Scheme	-100,000	0	-100,000
VHM000	Homeless Prevention Reserve	-112,238	0	-112,238
VLU000	Budget Carry Forwards Reserve	-301,337	66,427	-234,910
VNL000	Climate Change Reserve	-48,470	12,337	-36,133
VNN000	Recycling Reserve	-11,700	0	-11,700
	<b><u>General Reserves</u></b>			
VHK000	Exam In Public - LDF Reserve	-312,722	80,000	-232,722
VHN000	Housing Benefit Subsidy Reserve	-996,616	0	-996,616
VLL000	Invest To Save Reserve	-1,419,579	165,291	-1,254,288
VLN002	Future Pension Funding Reserve	-1,375,000	0	-1,375,000
VLN003	Insurance Fund Reserve	-100,000	100,000	0
VLP000	LA Business Growth Incentive Reserve	-641,145	27,875	-613,270
VLQ000	New Homes Bonus Reserve	-542,497	0	-542,497
VLR000	Area Based Grant Reserve	-86,050	0	-86,050
VLS000	Performance Reward Grant Reserve	-119,908	60,380	-59,528
VLT000	Housing & PDG Reserve	-300,934	0	-300,934
VLV000	Economic Impact Reserve	-1,537,236	-329,533	-1,866,769
VLW000	Development Sites - Decontamination Reserve	-1,310,324	0	-1,310,324
VLX000	High Street Innovation Reserve	0	-100,000	-100,000
	<b><u>Capital Financing Reserves</u></b>			
VG000	Multi-Storey Car Pk Rep Reserve	-182,784	2,138	-180,646
VHG000	Leisure Structured Maintenance Reserve	-422,514	0	-422,514
VLM000	Reserve Capital Fund Reserve	-1,895,682	-286,960	-2,182,642
VLN004	Vehicle Replacement Reserve	-425,000	-150,000	-575,000
	<b>Total Reserves</b>	<b>-13,306,080</b>	<b>-277,354</b>	<b>-13,583,434</b>
	<b><u>Other Reserve</u></b>			
VL000	PRG Capital Grants-One Watford Reserve	0	-191,404	-191,404

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CAPITAL PROGRAMME 2012/13 - 2015/16

CC	Capital Schemes	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16			
		Capital Expenditure	Actual Expenditure	Actual Expenditure	Revised to 2013/14	Virements	Increase (Decrease)	Current Budget	Current Spend	Commitment in BM/over/budget	Original Budget	Revised from 2012/13	incr/Decr/ Virements	Current Budget	Current Budget
	<b>Section 106 Funded Schemes</b>														
WAB928	Aspen Park Drive Playground	24,869	0	24,869	0	0	0	0	0	0	0	0	0	0	0
WAB944	Berry Avenue Play Area	60,000	12,814	0	0	0	95,000	0	0	0	0	0	60,000	0	0
WAB947	Calowland Recreation Ground	555,000	0	0	0	0	0	0	0	0	0	0	376,004	0	0
WAA154	Cassisbury Park - Improvements to tea pavilion	0	0	0	0	0	(140,000)	0	0	0	0	0	0	0	0
WAA153	Cassisbury Park - Shepherds Road entrance	0	0	0	0	0	(65,000)	0	0	0	0	0	0	0	0
WAA195	Cassisbury Park - table improvements	0	0	0	0	0	(240,000)	0	0	0	0	0	0	0	0
WAB925	Cassisbury Park Study Ancillary Facilities	26,830	3,156	7,878	0	0	0	0	0	0	0	0	0	0	0
WAB964	Central House Landscaping & Maintenance	1,050	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB928	Central Primary School Play Area	40,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB961	Cherry Tree Allotments	35,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB951	Cherry Tree Project	992,216	39,619	0	0	0	0	0	0	0	0	0	0	0	0
WNC004	Chile Valley Improvements	1,224	39,729	0	0	0	0	0	0	0	0	0	0	0	0
WAB934	Courlands Close Play Area	40,000	28,930	0	0	0	0	0	0	0	0	0	0	0	0
WNC018	Cow Lane Improvements	23,000	38,993	0	0	0	0	0	0	0	0	0	0	0	0
WAB300	Croxley Rail Link	593,832	146	0	0	0	0	0	0	0	0	0	0	0	0
WAB936	Eastcourt Road Improvements	120,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB965	Eastcourt Road	15,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB952	Farm Terrace Allotments	15,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB959	Fern Way Play area landscaping	62,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB938	Garston Park	29,274	22,114	0	0	0	0	0	0	0	0	0	0	0	0
WAB941	Herewoods Rec Ground Play Area	121,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB927	Herewoods Rec Play Area Improvements	145,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB931	Himalayan Way Play Area	100,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB932	Jellicoe Road Play Area improvements	11,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB950	King George V Playing Field	350,000	12,723	0	0	0	0	0	0	0	0	0	0	0	0
WNC030	Knutsford Playing Fields - changing facilities	454,684	9,356	54,412	0	0	0	0	0	0	0	0	0	0	0
WAB954	Knutsford Road	100,000	979	0	0	0	0	0	0	0	0	0	0	0	0
WAB955	Leavesden Green Rec MUGA	50,000	21,175	0	0	0	0	0	0	0	0	0	0	0	0
WAB962	Local Nature Reserves	80,000	67,073	0	0	0	0	0	0	0	0	0	0	0	0
WAB958	Local Park Improvements	250,000	222,000	0	0	0	0	0	0	0	0	0	0	0	0
WAB943	Meriden Park Play Area	120,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WNC022	Multi-use Games at Meriden	120,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB956	North Watford Cemetery	75,000	4,000	0	0	0	0	0	0	0	0	0	0	0	0
WAB929	North Watford Playing Fields Play Area	51,000	42	0	0	0	0	0	0	0	0	0	0	0	0
WAB949	Oxhey Park	550,000	21,000	0	0	0	0	0	0	0	0	0	0	0	0
WNC014	Oxhey Park Bridge	129,815	61,836	0	0	0	0	0	0	0	0	0	0	0	0
WAB963	Radlet Road	225,519	210,293	0	0	0	0	0	0	0	0	0	0	0	0
WAB946	Reghurst Avenue Play Area	30,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB948	Riverside Recreation Ground	50,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB935	Skate Park improvements	30,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB945	Southold Road Play Area	50,000	25,324	0	0	0	0	0	0	0	0	0	0	0	0
WAB930	St. Johns Road Play Area	31,000	16,896	0	0	0	0	0	0	0	0	0	0	0	0
WAB933	Stripling Road Rec Play Area	10,000	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB957	Vicarage Road Cemetery	75,000	4,000	0	0	0	0	0	0	0	0	0	0	0	0
WNF010	Waterfield Rec & Knutsford PG	160,000	6,039	0	0	0	0	0	0	0	0	0	0	0	0
WAB942	Waterfields Rec Play Area	100,000	20,000	0	0	0	0	0	0	0	0	0	0	0	0
WAB939	Waterfields Rec Play Area	20,000	2,659	0	0	0	0	0	0	0	0	0	0	0	0
WAB211	Watford Museum	76,435	51,199	0	0	0	0	0	0	0	0	0	0	0	0
WAB960	Wiggenthal Allotments	192,180	156,541	0	0	0	0	0	0	0	0	0	0	0	0
WNC021	Woodside Playing Field - Green Flag	0	0	0	0	0	0	0	0	0	0	0	0	0	0
WAB928	<b>Total Section 106 Funded Schemes</b>	<b>7,047,617</b>	<b>1,151,923</b>	<b>554,957</b>	<b>2,872,885</b>	<b>1,926,209</b>	<b>(465,000)</b>	<b>11,157</b>	<b>1,226,771</b>	<b>1,252,669</b>	<b>0</b>	<b>25,898</b>	<b>3,761,356</b>	<b>3,761,356</b>	<b>0</b>



CAPITAL PROGRAMME 2012/13 - 2015/16

CC	Capital Schemes Summary of Schemes	2010-16		2010/10		2010/11		2011/12		2012/13				2013/14		2014/15		2015/16		
		6-Year Cost £	Capital Expenditure £	Actual Expenditure £	Actual Expenditure £	Actual Expenditure £	Actual Expenditure £	Original Budget from 2011/12 £	Replaced to 2013/14 £	Replaced to 2013/14 £	Virements £	Increase (Decrease) £	Current Budget £	Current Spend £	Commitment in BM/ over/budget £	Original Budget from 2012/13 £	Incr/Decr/1 Virements £	Current Budget £	Current Budget £	Current Budget £
WA6920	Key Projects	23,936,035	3,908,270	4,955,225	1,880,915	845,085	(1,814,327)	0	358,222	1,270,875	1,478,809	0	307,934	over	4,763,779	1,814,327	2,803,432	9,381,638	2,206,639	2,113,487
WA6921	Environmental Services	3,475,670	140,623	286,940	715,000	186,816	(380,000)	0	0	541,916	204,126	0	(337,690)	under	337,000	360,000	1,210,000	1,907,000	278,000	286,000
WA6922	Community & Leisure Services	3,073,705	227,974	228,190	0	170,000	(601,814)	483,089	0	31,285	35,873	0	4,688	over	0	601,814	1,460,316	2,062,130	750,000	0
WA6923	Housing Services	5,213,588	571,085	694,200	820,068	528,215	(942,590)	0	0	405,723	405,723	0	0	equal	800,000	942,590	(270,497)	1,472,063	1,170,497	900,000
WA6924	Parking Services	176,002	56,549	47,860	35,000	17,140	(40,589)	1,901	7,786	13,452	7,786	0	(5,666)	under	35,000	40,589	0	75,589	35,000	0
WA6925	Asset Management	8,332,510	300,084	397,654	979,000	380,266	(1,038,709)	159,663	195,000	674,240	801,577	0	127,337	over	700,000	1,039,709	(30,333)	1,709,376	3,615,000	510,000
WA6926	ICT	1,149,847	76,092	148,759	135,000	103,879	(173,600)	(58,663)	(6,000)	56,257	22,641	0	(35,616)	under	121,000	117,939	114,000	352,939	245,000	245,000
WA6927	ICT - Shared Services Joint Committee	670,716	0	15,888	0	144,510	(73,600)	39,000	21,600	131,510	192,914	0	61,404	over	0	73,600	218,000	291,600	18,000	18,000
WA6928	Section 106 Funded Schemes	7,047,617	554,957	1,151,823	2,872,885	1,926,209	(3,118,480)	(465,000)	11,157	1,226,771	1,252,669	0	25,898	over	604,890	3,118,480	57,986	3,781,356	332,710	0
WA6929	Corporate / Service Project Management	2,470,636	400,000	413,226	552,470	0	0	0	0	552,470	552,470	0	0	equal	561,460	0	(6,990)	552,470	552,470	0
WA4900	Total All Schemes	55,450,306	2,295,579	9,481,315	7,990,338	4,303,100	(8,105,018)	140,000	579,973	4,904,399	4,954,688	0	50,289	over	7,923,129	8,105,018	5,553,914	21,586,061	9,203,316	4,044,487

Capital Schemes	2010-16		2010/10		2010/11		2011/12		2012/13				2013/14		2014/15		2015/16			
	6-Year Cost £	Capital Expenditure £	Actual Expenditure £	Actual Expenditure £	Actual Expenditure £	Actual Expenditure £	Original Budget from 2011/12 £	Replaced to 2013/14 £	Replaced to 2013/14 £	Virements £	Increase (Decrease) £	Current Budget £	Current Spend £	Commitment in BM/ over/budget £	Original Budget from 2012/13 £	Incr/Decr/1 Virements £	Current Budget £	Current Budget £		
Capital Programme Financing	48,402,689	2,219,600	5,675,771	8,329,492	5,117,463	2,376,881	(4,990,538)	605,000	568,822	3,677,628	3,702,019	0	24,391	over	7,318,239	4,990,538	5,495,928	17,804,705	8,870,606	4,044,487
General Fund Programme	7,047,617	75,980	1,151,823	1,151,823	2,872,885	1,926,209	(3,118,480)	(465,000)	11,157	1,226,771	1,252,669	0	25,898	over	604,890	3,118,480	57,986	3,781,356	332,710	0
Total Capital Programme	55,450,306	2,295,579	9,481,315	7,990,338	4,303,100	(8,105,018)	140,000	579,973	4,904,399	4,954,688	0	50,289	over	7,923,129	8,105,018	5,553,914	21,586,061	9,203,316	4,044,487	
Grants & Contributions										425,000	631,678	0					1,850,000	200,000	0	0
Reserves										100,000	0	0					1,500,000	1,700,000	1,500,000	0
Capital Receipts										3,130,466	3,156,703	0					14,071,867	6,970,606	2,544,487	0
St06 Contributions										1,248,933	1,166,307	0					4,224,194	332,710	0	0
Total Capital Financing										4,904,399	4,954,688	0					21,586,061	9,203,316	4,044,487	
Available Funding - Capital Receipts										2012/13	2012/13						2013/14	2014/15	2015/16	
Balance Brought Forward										12,872,093	12,872,093						12,246,330	3,234,463	(736,143)	
Used for Financing										(3,130,466)	(3,156,703)						(4,071,867)	(6,970,606)	(2,544,487)	
In-Year Capital Receipts										3,000,000	2,530,940						5,000,000	3,000,000	2,000,000	
Balance Carried Forward										12,741,627	12,246,330						3,234,463	(736,143)	(1,280,630)	
Available Funding - Section 106										2012/13	2012/13						2013/14	2014/15	2015/16	
Balance Brought Forward										5,511,562	5,511,562						4,875,415	985,726	798,204	
Adjustment for TR0 & Healthcare Contributions										0	(293,413)						0	0	0	
Used for Financing										(1,248,933)	(1,166,307)						(4,224,194)	(332,710)	0	
In-Year Capital Receipts										375,000	763,967						250,000	150,000	0	
Interest										75,139	59,606						64,505	15,189	9,578	
Balance Carried Forward										4,772,768	4,875,415						965,726	798,204	807,783	

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# Agenda Item 5

**Report to:** Budget Panel  
**Date of meeting:** 10th July 2013.  
**Report of:** Head of Strategic Finance  
**Title:** Revised Medium Term Financial Strategy 2013 / 2017

## **1.0 SUMMARY**

1.1 This report informs the Budget Panel of the report to go to Cabinet on 8<sup>th</sup> July 2013.

## **2.0 RECOMMENDATIONS**

2.1 To consider the attached report.

### **Contact Officer:**

For further information on this report please contact Bernard Clarke, Head of Strategic Finance, telephone extension 8189, email [bernard.clarke@watford.gov.uk](mailto:bernard.clarke@watford.gov.uk)

**3.0 INTRODUCTION**

3.1 Included in attached Report.

**4.0 FINANCIAL IMPLICATIONS**

4.1 Included in attached report.

**5.0 LEGAL IMPLICATIONS**

5.1 Included in attached report.

**6.0 POTENTIAL RISKS**

6.1 Included in attached report.

**7.0 EQUALITIES**

7.1 Included in attached report.

**Appendices**

Report to Cabinet 8<sup>th</sup> July 2013.

**Report to:** Cabinet  
**Date of meeting:** 8th July 2013  
**Report of:** Head of Strategic Finance  
**Title:** Medium Term Financial Statement 2013/2014 to 2016/2017

**1.0 SUMMARY**

1.1 This report updates Cabinet regarding the Council's Medium Term Financial Statement (MTFS).

**2.0 RECOMMENDATIONS**

2.1 Cabinet consider the contents of this report, provide guidance if it feels the need, and note a detailed analysis and revised MTFS will be reported to the 9<sup>th</sup> September Cabinet.

**Contact Officer:**

For further information on this report please contact Bernard Clarke, Head of Strategic Finance, telephone extension 8189, email [bernard.clarke@watford.gov.uk](mailto:bernard.clarke@watford.gov.uk)

### **3.0 INTRODUCTION**

3.1 The Medium Term Financial Strategy (MTFS) provides an overview of the main components of Watford's revenue expenditure and available finance. For the document to be meaningful for financial planning it is necessary to forecast likely scenarios over a medium term perspective (four years 2013/ 2017). The current policy of the Council is to produce a sustainable budget by the end of that four year period. A budget where expenditure and annual income are in tandem without the distortion caused by the use of reserves. The current MTFS (prepared in January 2013) is attached at **Appendix 1** but does need substantial review.

3.2 As part of this review, it is necessary to evaluate the future profile of all expenditure on services and includes:

- salaries and associated costs
- expenditure on goods and services
- the cost of outsourced contracts
- the cost to the Council of administering the local 'welfare' service
- any revenue effects consequent upon completion of the capital programme

The Council also has control over a number of income sources, the major income coming from its commercial rent portfolio.

3.3 The effect of its expenditure and local income projections will result in a net expenditure figure that has to be funded from:

- central government grant
- re-distribution of business rates
- new homes bonus specific grant
- council tax freeze grant
- levels of council tax
- use of revenue reserves

3.4 Subsequent sections of this 'overview' will cover all major issues that affect Watford's budget and will include latest 'intelligence' that needs to be properly evaluated.

### **4.0 THE COUNCIL EXPENDITURE PROFILE**

#### **4.1 Salaries and Associated Costs**

4.1.1 The total salary and agency bill in 2012/2013 was circa £14.5m but, paradoxically, is often one of the easiest to control. If the budgets were forecast to overspend then a recruitment freeze can be introduced. The current MTFS has assumed a 1% vacancy level across most services (although this has not been imposed for services such as waste collection which is a front line service and needs to be adequately resourced at all times).

4.1.2 The MTFS also has to make provision for future pay awards and had allowed for an effective 2% award in 2013/2014 and 1% a year thereafter. It is likely that local government trade unions will accept a 1% award from 1<sup>st</sup> April 2013 (with an additional 1.4% for the lowest paid). Watford has no staff that fall within the definition of 'low paid' so we are likely to have a 1% cushion within our revenue budget.

4.1.3 The Chancellor of the Exchequer announced on June 26<sup>th</sup> that the public sector would be limited to a 1% pay award in 2015/2016 (which although not binding on local government, does generally set a benchmark). The Chancellor has also announced that there will be no automatic progression (increments) permitted in future for the civil service, schools, hospitals, prisons and the police. Again he has no direct control over local government but the Secretary of State at the DCLG may adjust government funding to achieve the same effect. In reality, for Watford, most staff are on the top point of their grades so the financial effect would be limited either way.

4.1.4 Of far greater concern however is the future effect upon the salaries bill of potential changes to employers contributions to national insurance where government pronouncements need to be carefully analysed as no additional cost has been reflected within the MTFS.

4.1.5 Similarly, there is to be an actuarial review of all local authorities pension schemes as at 31<sup>st</sup> March 2013 (results known in December 2013) and it is widely anticipated that current deficits will have increased due to the combination of people living longer and poor investment returns due to the 'low interest rate' environment. Watford has always followed the HCC actuary's advice which aims to cover any deficit over a 20 year perspective. The current MTFS had anticipated an increase in employer contribution rates by 1% in April 2014 and again by a further 1% in April 2016. The April 2016 increase may have to be brought forward to April 2014 and this needs further evaluation.

## 4.2 **Goods and Services**

4.2.1 The MTFS has generally expected Heads of Service to live within cash limited budgets (if inflation goes up, volumes must go down). In reality improved procurement and consequent lower unit costs has meant this has not been a pressure area.

4.2.2 This cash freeze has not been applied to energy/ fuel costs where a 10% a year increase has been built in. Similarly business rates on our own properties has been allowed (2.6% for 2013/2014) and welfare payments such as housing benefit has also taken into account annual uplifts; and finally where there are outsourced contracts with an inflation factor then this has been applied.

## 4.3 **Outsourced Contracts**

4.3.1 The past 15 months has experienced considerable change to the way Council services are provided and has resulted in the following:

- ICT outsourced with effect from 20<sup>th</sup> May 2013.
- Waste, Cleansing, Recycling, Parks and Open Spaces outsourced 1<sup>st</sup> July
- Market being transferred to a private operator
- Charter Place being managed by INTU
- CCTV relocated
- Internal Audit transferred to a Shared Internal Audit Service

4.3.2 In addition there could potentially be further change in areas such as Building Control. All these changes have a significant effect upon council budgets with anticipated savings forecast not just in the direct service area but also within support costs. All of these now need to be evaluated so that the revised MTFS can reflect revised budgets. This will need to be finalised within the next 6 weeks.

#### **4.4 Cost of Welfare Benefits**

4.4.1 Unquestionably the most volatile, uncertain and high risk area of the Council's revenue budgets. Recent changes include a reduction in subsidy for council tax benefits, implementation of a benefit cap, and withdrawal of an element of benefit where there is an under occupation of bedrooms. For the future, there will be the phased implementation of universal credit with the transfer of responsibility for administration from local authorities to the HMRC. This could well affect levels of staffing but the current timescales may well slip. An evaluation does need to take place as the potential effects of universal credit have not been factored into the MTFS.

#### **4.5 Revenue Effects of the Capital Programme**

4.5.1 The Council has a number of major projects which are now well developed. It is therefore timely to evaluate any revenue costs/ income that will be incurred as the projects develop. Some provision has been made for ongoing maintenance associated with the Cultural Quarter/ High Street improvements and this evaluation needs to be extended to all other projects.

4.5.2 One clear revenue effect is the loss of investment interest as projects utilise the Council's holding of capital receipts and this has largely been factored into the MTFS. In addition, however, there is the probability that over the next four years the Council will borrow up to £4m from the PWLB to finance up front costs relating to the Health Campus. In isolation this £4m would require an annual Minimum Revenue Provision of circa £150k per annum and needs to be reflected within the MTFS at some point.

#### **4.6 Miscellaneous Revenue Expenditure**

4.6.1 There will be some cyclical items of expenditure that need to be reviewed so, for example, it has been announced that European elections will be held on the same day as local elections on May 22<sup>nd</sup> 2014 and this may result in a saving to the Council.

4.6.2 Other issues that need to be addressed include homelessness volumes/ potential use of bed and breakfast; the repair and maintenance programme to reflect a number of assets falling under the remit of outsourced suppliers combined with the fact that the 'reactive' repair programme has largely been completed. Recently the West Herts Crematorium Joint Committee has set a target to create a 'dividend' equivalent to an annual payment of £50k per annum to each of the constituent bodies with effect from April 2014 to March 2018 and this needs to be factored into the MTFS.

4.6.3 The Outturn for 2012/2013 will also be a useful reference document with a need to determine whether there will be ongoing costs/ savings in future years.

#### **4.7 Local Sources of Income/ Fees and Charges**

4.7.1 The Council raises circa £14m annually from rents and fees and charges and these areas are overdue for a further review. For example, pessimistic assumptions have been made regarding loss of rental income from commercial property and which, from the 2012/2013 outturn, do not appear to have



materialised. We also now have in place a rent guarantee at Charter Place but this may be offset by a loss of rent income at Cardiff Business Park as it is developed as part of the Health Campus. It is therefore a constantly changing horizon and the MTFS needs to have properly evaluated the profile of these changes.

## **5.0 FUNDING OF THE REVENUE BUDGET**

### **5.1 Central Government General Support.**

5.1.1 For 2013/2014 the MTFS included the receipt of £5,724k by way of Formula Grant/ NNDR and Council Tax Reduction Grant (£4,765k; and £958k respectively). For 2014/2015 these three sources of funding have been absorbed into one payment notified as being £4,963k (the MTFS at Appendix 1 showed the sources of funding separately for ease of comparison). The MTFS however assumed a combined figure of £5,247k in 2014/2015 and will need to be adjusted downwards.

5.1.2 The Chancellor of the Exchequer announced on 26<sup>th</sup> June 2013 public expenditure targets for 2015/2016 (one year only, to be reviewed for future years after a General Election). For local authorities the headline figure was a further 10% reduction in government support and which can only be assumed will include a reduction in the council tax benefit reduction element which has now been subsumed within the general external support.

5.1.3 He further stated that in fact 8% of this 10% cut will be returned to local authorities by way of special funding. It will almost certainly be the case that this funding will be earmarked towards adult social care and that no funding will be allocated to district councils. As further information becomes available then this source of external funding can be adjusted.

5.1.4 At the present time however the revised MTFS will assume £4,963k in 2014/2015 and £4,467k in 2015/2016. For future years it is not anticipated that the situation will improve and further year on year reductions of 10% will be factored in. This will considerably change the shape of the current MTFS.

### **5.2 Redistribution of Business rates**

5.2.1 One of the major changes to local government funding has been the incentive for local authorities to grow their business rates base. Formerly all business rates income was collected on behalf of central government and then redistributed back to authorities on the basis of need. This however provided no incentive for local authorities to seek to maximise business rates income or indeed improve their collection rates.

5.2.2 With effect from 1<sup>st</sup> April 2013, a base level of business rates income was to be established for each local authority area and that was to remain unchanged (as a base) for a seven year period. For Watford the base position was estimated to be £65,374k. Having determined this, central government expected 50% (£32,687k) to be paid over with the residual 50% being retained locally and divided up between Watford/ HCC.

- 5.2.3 Should the actual business rates for each year (in the seven year period) exceed this base position, then the government take 50% of any gains and the two authorities split any surplus on a fixed percentage (80% Watford; 20% HCC). Equally however should there be a deficit then it is shared 50% government/ 50% Watford and HCC (again Watford would suffer 80% of any shortfall).
- 5.2.4 This is a very simplistic analysis as the system has built in tapers/ top ups/ and safety nets but the key issue remains that the government are effectively transferring 50% of business rates risk to local authorities. A review is taking place internally within the Watford Revenues Division to seek to ascertain how realistic is the total business rates base position of £65,374k. A key component of this review is to obtain latest data from the Valuation Office Agency regarding the likely result of business rates appeals in the pipeline. Currently there are circa £3.4m of rating appeals in the Watford area and, if these were totally successful then it is probable that a shortfall in the base position would be experienced (and that this would be enshrined for the next 7 years).
- 5.2.5 It is therefore a significant risk area and the effects need to be reflected within a revised MTFS. Running parallel with this review, HCC has been carrying out modelling across the county area to seek to establish whether risk can be mitigated by way of business rates pooling amongst all districts. Its initial conclusion was that Stevenage, Hertsmere and Broxbourne would benefit from pooling but for most authorities it would be marginal. This information must be treated with a great degree of circumspection as HCC officers must be using out of date information and that the key issue is to seek to identify the likely cost of appeals.
- 5.2.6 For the future, the MTFS will need to profile any significant future gains or losses to the base position and again the Health Campus development programme needs to be factored in. The Economic Development Officer to the Council needs to be involved in these forward projections.
- 5.3 **New Homes Bonus Grant**
- 5.3.1 The government has set a priority to build more homes and to encourage authorities to make more land available / and to facilitate development. As a consequence, a significant amount of funding has been made available for authorities that produce a net increase in available homes in any one year. The funding to be distributed and called 'New Homes Bonus Grant' and the size of any individual distribution to be related to past achievement in the previous year.
- 5.3.2 The available funding is not 'new' money but has been generated by top slicing it from general Revenue Support Grant. This redistribution has not been appreciated by the less prosperous parts of the country (typically the north east) where there is little residential development actually being constructed. The south east has been the main beneficiaries with Watford having received significant amounts of NHB.
- 5.3.3 It is necessary to review our current model relating to the future receipt of NHB and this will involve firstly an internal review to determine the net number of additional units ( this is effectively those properties coming on stream less those properties lying empty). There is also a premium if the units are deemed 'affordable' so that needs to be evaluated at the same time.

5.3.4 The current MTFs has been based upon historic data and needs to be revisited (for example, the net number of housing completions in 2012/2013 was 541 homes whereas the NHB model has assumed 408 net completions. Any review needs to involve the Planning Policy Team, the Housing Division, a representative from Revenues, and financial back up. Ideally the results of this review should feed through to the revised MTFs in September.

5.3.5 The Chancellor's statement on 26<sup>th</sup> June 2013 was silent regarding the New Homes Bonus but made much play of the fact that £2bn is to be made available in 2015/2016 onwards for the creation of a Single Local Growth Fund with funding for transport, skills, and housing and to be allocated through the Local Enterprise Partnerships. Subsequent clarification has been received that £400m of this £2bn is to be top sliced from New Homes Bonus (estimated at 30% of total NHB). This is extremely disturbing news for Watford as the £2bn may well be redistributed from the South East and this again will need to be reflected within the revised MTFs.

#### 5.4 **Council Tax Freeze grant**

5.4.1 The current situation is that the MTFs in 2014/2015 includes £204k of freeze grant that relates to the initial freeze guarantee made in 2011 that if authorities froze council tax in 2011/2012 they would receive freeze grant equivalent to a 2.5% increase in council tax for the four years 2011/2015. In 2015/2016 onwards no freeze grant had been assumed. The MTFs also includes an assumption that a further £84k would be received in 2014/2015 for freezing council tax in 2013/2014 and equated to a 1% council tax increase. These numbers need to be revisited as the change in the council tax base 'methodology' in 2013/2014 has reduced this level of grant marginally.

5.4.2 The Chancellor of the Exchequer, in a statement to the House of Commons on 26<sup>th</sup> June, announced that grant would be available for councils freezing council tax in 2014/2015 and 2015/2016 and will almost certainly be geared to a 1% tax increase (£80k using new tax base). This needs clarification however as it is uncertain whether there will be a further grant in 2014/2015 in addition to what has been assumed and also the cumulative position in 2015/2016.

5.4.3 The MTFs needs to evaluate the reducing benefit of this grant as it further distorts the relationship between the council's ongoing expenditure and its ongoing local income base (council tax). It is increasingly likely that authorities will decline this inducement as it is important that the local tax base does not lose its real value.

5.4.4 The Chancellor also announced that council tax capping will continue to apply and that a referendum will be required should the council tax increase by more than 2% (assumed to affect 2014/2015 as well as 2105/2016). It is probable that some authorities will actually test the 'will of the people' in 2014/2015.

#### 5.5 **Council Tax Base, Collection Fund and Collection Levels**

5.5.1 Within the current MTFs, the council tax base for 2013/2014 was estimated to be 29,418 Band D equivalents with annual increase of 350/ 350/ 250 in the three years 2014/2017. The latest schedule of council tax indicates that the base for 2013/2014 will actually be 30,007 and shows a 589 (Band D equivalent) increase to the base and equates to an additional £147k income for Watford services (and which will be ongoing throughout the MTFs period.

- 5.5.2 Whilst this is a reliable starting point, it is important that future projections of growth in the council tax base mirror assumptions within the Planning Policy Division regarding future residential development projects (including the Health Campus).
- 5.5.3 The Collection Fund is a statutory account which charts the amount of council tax anticipated to be collected against the amounts actually collected. The MTFS has made no assumptions for either surpluses or deficits on this Fund throughout the four year period. This needs to be reviewed (the outturn for 2012/2013 indicates a £189k surplus was recorded (£31k to Watford, the rest to the preceptors).
- 5.5.4 Finally the MTFS needs to review collection levels of council tax to seek to establish are they still realistic (97% collection rates has been assumed throughout the four year period).

## 5.6 Use of Reserves/ Balances

- 5.6.1 These need to be kept under regular review as they may no longer be required for the purpose for which they were created. Also a key issue revolves around whether they are too large/ too small and any review does need to focus over the medium term and will be influenced by all the other factors within this report to Cabinet. The use of reserves can best be reviewed when the Revised MTFS has actually been populated as it is only then that a true financial profile will be known.
- 5.6.2 It is important to emphasise that the use of reserves can only be considered as a short term expedient and that, at some point, the need to balance expenditure and available ongoing funding will be of critical importance to the financial resilience and health of any local authority.

## 6.0 CONCLUSION

- 6.1 The aim of the MTFS is to provide a reliable forecast over a four year planning timescale to enable a sustainable financial environment to be in place where ongoing expenditure and income are in tandem. The MTFS can only be as good as the assumptions and realism reflected within it. Should an over optimistic view be taken then, in the fullness of time, shortfalls in funding will appear and reserves or knee jerk service reductions will be necessary. Equally however an overly pessimistic view will probably result in a greater degree of service reductions being imposed. It is a balancing act and that is why the MTFS should be reviewed on a regular basis.
- 6.2 This paper has highlighted a number of issues that need to be re-evaluated in the light of the considerable changes that have occurred over the past twelve months. It is suggested that these reviews take place over the next 6 weeks so that an up to date position statement can be produced. This will enable the MTFS at Appendix 1 to be populated with latest projections and supporting notes of the assumptions made.
- 6.3 Discussions can then be held between Leadership Team/ Elected Mayor/ and Portfolio Holders so that a revised financial strategy can be developed. In that process it will be important that Budget Panel on 10<sup>th</sup> September is provided with all information so that it can play a vital role in shaping the next four years.

6.4 A bi-product of these reviews will be that the newly appointed Joint Section 151 Director of Finance will have all available information and projections and will be able to provide essential advice.

## 10.0 FINANCIAL IMPLICATIONS

10.1 These have been included within the report.

## 11.0 LEGAL IMPLICATIONS

11.1 There are no legal implications in the report.

## 12.0 POTENTIAL RISKS

Potential Risk	Likelihood	Impact	Overall Score
That the Medium Term Financial Strategy will be based upon unreliable data	2	4	8

## 13.0 EQUALITIES

13.1 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 to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions.

13.2 The reporting of issues that need to be reflected within a review of the Medium Term Financial Strategy does not equate to actually making any firm proposals and will not therefore have equality implications.

### Appendices:

Appendix 1 Current Medium Term Financial Strategy

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**MEDIUM TERM FINANCIAL STRATEGY: JANUARY 2013**  
**General Fund Budget Projections 2012/13 - 2016/17 as at 8 January 2013**

	2012/13	2013/14	2014/15	2015/16	2016/17
<b>Base</b>	<b>15,839,830</b>	<b>15,243,510</b>	<b>15,021,480</b>	<b>15,031,310</b>	<b>14,995,410</b>
Service Prioritisation: Phase I	(894,780)	(128,000)	(47,250)	-	-
Council Roadmap Efficiencies		(672,810)	(649,000)	(671,190)	-
Council Roadmap Contingency		-	100,000	250,000	-
Reduced Investment Interest		55,000	50,000	50,000	-
Commercial Rents		105,490	50,000	68,000	-
Revenues and Benefits: Reduced administration grant		21,000	-	-	-
Elections - cyclical profile		(75,000)	150,000	(70,000)	-
Shared Services - Operating Costs / Phase 2	228,460	(24,040)	(101,050)	40,980	-
Pay Inflation / Increments		200,000	190,000	210,000	210,000
Employer's Superannuation Contributions		-	160,000	-	160,000
Contract / Utilities / Fuel Inflation / C Tax		201,160	74,130	86,310	70,000
Fees and charges review		(8,210)	-	-	-
Approved growth	70,000	103,380	-	-	-
NNDR Discretionary Rate Relief		-	-	-	-
Cultural Quarter running expenses		-	33,000	-	-
<b>Net Expenditure</b>	<b>15,243,510</b>	<b>15,021,480</b>	<b>15,031,310</b>	<b>14,995,410</b>	<b>15,435,410</b>
<b>Funded By:</b>					
Grant Settlement	5,418,740	4,765,720	4,289,000	4,075,000	3,870,000
Council Tax Support Funding	-	958,370	958,370	958,370	958,370
CT Benefit Transitional Relief	-	26,000	-	-	-
CLG Grant for Council Tax Freeze	206,460	204,690	204,690	-	-
CLG Grant for Council Tax Freeze	-	84,000	84,000	-	-
New homes bonus	1,516,360	2,048,000	2,300,000	2,600,000	2,800,000
New homes bonus to capital		(1,000,000)	(1,000,000)	(580,000)	-
Planned contribution to Earmarked Reserves	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)
(To)/From Reserves to fund overspend	(6,511)	734,908	908,013	379,242	(14,200)
	6,985,049	7,671,688	7,594,073	7,282,612	7,464,170
<b>Council Tax Requirement</b>	<b>8,258,461</b>	<b>7,349,792</b>	<b>7,437,237</b>	<b>7,712,798</b>	<b>7,971,240</b>
CTR target	8,258,461	7,349,792	7,437,237	7,712,798	7,971,240
Council Tax Base	33,055	29,418	29,768	30,118	30,368
<b>Council Tax % increase</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2.50</b>	<b>2.50</b>
Average charge	249.84	249.84	249.84	256.09	262.49
Collection rate as a percentage	-	97.00	97.00	97.00	97.00

Corp director £135K + Dir Fin £93K

BJA200-N0204

See WP

BAK900-J0109

AGR000-D0101

Per Shared Service budget set 19-Nov-2012

2014/15 as advised by HCC Pensions

Pending inflation assumptions

As per fees &amp; charges report

BJA300-N0301 / BJA300-N0304

BJA300-N0313

BJA300-N0314

BJA300-N0306

BJA300-N0306

BJA300-N0308

BJA300-N0308

BJA450-M0201-WRV026 (Vehicle resv)

BJA451-M0301-WRV025 (Econ impact)

BJA300-N0303

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# Agenda Item 6

## Budget Panel Rolling Work Programme

2013/2014

### Committee Membership

**Chair** Councillor Jagtar Dhindsa  
**Vice-Chair** Councillor Steve Rackett  
**Councillors** Jeanette Aron, Shirena Counter, George Derbyshire, Sue Greenslade, Rabi Martins, Peter Taylor and Matt Turmaine

<b>Date of Meeting</b>	<b>Item for agenda</b>	<b>Officer</b>
<b>10 July 2013</b>	Final Outturn	Head of Strategic Finance and Shared Services
	Medium Term Financial Strategy	Head of Strategic Finance and Shared Services
	Work Programme	Committee and Scrutiny Officer
<b>10 September 2013</b>		
	Finance Digest 2012/2013: Period 4 (end of July)	Shared Director of Finance
<b>29 October 2013</b>		
<b>26 November 2013</b>		
	Finance Digest 2012/2013: Period 7 (end of October)	Shared Director of Finance
<b>15 January 2014</b>	Draft Revenue and Capital Estimates 2014/2017	Shared Director of Finance
<b>26 February 2014</b>		
	Finance Digest	Shared Director of Finance

June 2013

<b>Date of Meeting</b>	<b>Item for agenda</b>	<b>Officer</b>
	Work Programme	Committee and Scrutiny Officer
	Annual Report	Committee and Scrutiny Officer