



COUNCIL FINANCES

2016/17 to 2019/20

Medium Term Financial Strategy



**WATFORD
BOROUGH
COUNCIL**

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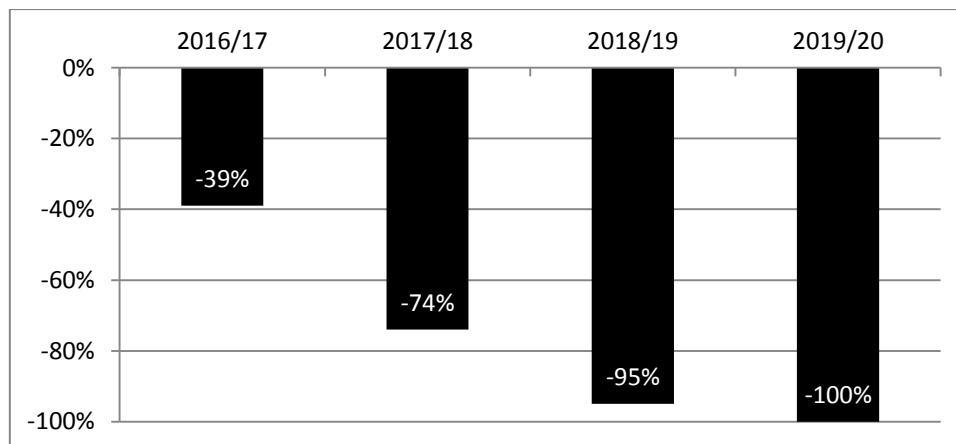
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Executive Summary

The Medium Term Financial Strategy (MTFS) provides Members with information on the overall financial position of the Council over the next three years, and brings together the previous budget set by Council in January 2016, the budget monitoring activities carried out during the current year and the latest developments in funding, legislation and service delivery. The strategy sets the budget for financial year 2017/18 and indicative budgets for the following two years (2018/19 and 2019/20).

Regular budget monitoring reports are presented to both the Council's Leadership Team and Budget Panel throughout the year. The latest budget monitoring report (Finance Digest) is available up to the end of November.

The preparation of the MTFS has been completed against a backdrop of further cuts in government funding, increasing pressure on services (for example, temporary accommodation), and increasing expectations from stakeholders. To provide some certainty, the Council agreed on 11 October 2016 to accept the Government's offer of a four year grant settlement at their meeting on 11 October 2016. The percentage effect of the grant reducing year on year from 2015/16 is shown below.



Each year the Council is required to set a realistic, achievable in-year balanced budget and indicative budgets for the following two years. With the reduction in grant Heads of Service have been encouraged to find as many efficiency savings and as much additional income as possible, and to minimise any discretionary growth whilst continuing to provide value for money services to the public.

The 2016-19 MTFS showed a budget gap of **£2.348 million** in 2018/19, therefore during the current year the Council has had to develop a strategy that not only closes the gap but ensures that the Council is sustainable and meets its corporate vision to create a bold and progressive future for Watford. The strategy includes further development of the Council's Property Investment Portfolio, continuing the work undertaken by the Property Investment Board, and a new service transformation and commercialisation programme, called Watford 2020.

Previously the Council tax level has been frozen since 2010/11 when it was cut to its current level. By freezing the council tax since then the effect of inflation (as measured by RPI) has meant that residents have benefitted from a real terms cut of 19.2%.

The summary 2017-20 MTFS shown overleaf demonstrates that there is a funding gap over the period which means that a continued freeze neither prudent nor sustainable. Therefore the decision has been taken to increase the council tax by **£5.00 (2.00%)** for a Band D property in 2017/18 only. This represents a rise in line with RPI of 2.0% (September 2016) and this is in-line with the government's assumptions for local government finance and core spending power.

The 2017-20 MTFS report includes for information and approval:

- The revised budget for 2016/17 which shows a net service cost of **£15.137 million** and net expenditure of **£17.306 million**.
- The service budget proposal for 2017-18 of **£12.640 million** and net expenditure of **£14.262 million**. Further details on all the figures in the MTFS are shown at **Appendix 1**, and the MTFS summary below.
- The fees and charges for services in 2017/18. The breakdown of these figures into years and services can be seen in **Appendix 1 (a to d)**. The schedule of fees and charges, including the charging policy is circulated as a separate document which accompanies this report.
- Corporate budgets which provide for central costs and income such as financing and investment, corporate pension costs, and contingency for unexpected changes in price or unfunded legislative change. The detail of these figures can be seen on the MTFS summary, below.
- Discretionary growth across the period of the MTFS amounts to **£1.049 million** and additional income and efficiencies of **£3.495 million**. The details of these can be seen under growth, income and efficiencies below, and in **Appendix 2 (a and b)**.
- Use of reserves and reserve balances are shown in the MTFS summary (below) and detailed at **Appendix 3**.
- Funding in support of the Council's expenditure plans.
- The Council Tax Base and Council tax calculation (**Appendix 8**).
- The capital investment programme for the medium term (**£117.728 million**). Details of the capital programme are shown at **Appendix 4**.
- The Council's strategy for Flexible Use of Capital Receipts.
- A proposal to change the Key Decision Limit.
- The key risks relating to the Council's finances and the statutory report of the Director of Finance on the robustness of estimates and the adequacy of the Council's reserves.

The full MTFS showing the services and funding for the Council is shown overleaf, but the position over the medium term is as follows:

MTFS 2016-19 to 2017-20	2017/18	2018/19	2019/20
	£000s	£000s	£000s
Gap per MTFS 2016 -19	785	2,348	2,348
Changes in this report			
Salaries	242	350	560
Unavoidable Growth	1,119	1,204	1,246
Efficiency Savings	(567)	(310)	(340)
Fees & Charges	(247)	(212)	(226)
Effect of Capital Programme	(1,088)	(951)	(951)
Growth	919	75	55
Income and efficiencies	(126)	(1,504)	(1,865)
Funding and other adjustments	(244)	465	608
Planned use of reserves	(886)	(88)	(200)
Increase in Council Tax	(160)	(162)	(164)
Gap per MTFS 2017-20	(253)	1,215	1,071
Of which one off items (Health Campus dividends & Interest)	(1,280)	0	0
Recurring Gap	1,023	1,215	1,071

In addition, further projects are being undertaken which will generate one-off returns, for example the next phases of the Watford Health Campus project, and the joint venture housing company with Watford Community Housing Trust. These will be included in budgets as business plans are finalised and agreed by Cabinet.

Medium Term Financial Strategy 2016-20

	2016/17 Revised £000s	2017/18 Original £000s	2018/19 Original £000s	2019/20 Original £000s
Managing Director	1,301	824	829	840
Deputy Managing Director	(3,241)	(4,394)	(4,361)	(4,380)
Director of Finance	1,901	1,827	1,852	1,852
Service Transformation	1,975	1,844	1,863	1,875
Community Services	9,220	8,784	8,955	9,060
Democracy & Governance	3,405	3,174	3,335	3,308
Human Resources	576	581	611	635
Net cost of services	15,137	12,640	13,084	13,190
Corporate Budgets				
Dividends & Interest earned	(300)	(1,550)	(282)	(282)
Interest payable	130	130	130	130
Pension Fund deficit payments	2,300	2,249	2,349	2,449
Revenue provision for Capital (PMB)	39	0	0	0
Corporate Budgets	2,169	829	2,197	2,297
Financial Planning				
Growth		919	75	55
Savings		(126)	(1,504)	(1,865)
Sub-Total	0	793	(1,429)	(1,810)
Total Net Expenditure	17,306	14,262	13,852	13,677
Planned Use of Reserves				
Contributions to reserves	253	0	12	0
Contributions from reserves	(2,173)	(886)	(100)	(200)
Sub-Total	(1,920)	(886)	(88)	(200)
Funding				
Council Tax	(7,824)	(8,170)	(8,253)	(8,335)
Revenue Support Grant	(1,310)	(565)	(114)	0
Business Rates	(2,400)	(2,452)	(2,532)	(2,621)
New Homes Bonus	(3,509)	(2,098)	(1,400)	(1,200)
(Surplus)/Deficit on collection fund	(250)	(250)	(250)	(250)
Other smaller grants/contributions	(93)	(94)	0	0
Sub-Total	(15,386)	(13,629)	(12,549)	(12,406)
Total Funding & Use of Reserves	(17,306)	(14,515)	(12,637)	(12,606)
Gap	0	(253)	1,215	1,071
Reserves - opening balances	(17,547)	(19,467)	(20,100)	(21,403)
Planned use of reserves	(1,920)	(886)	(88)	(200)
Gap funded from reserves	0	253	(1,215)	(1,071)
Reserves - closing balances	(19,467)	(20,100)	(21,403)	(22,674)
Council Tax Rate Calculation - income				
Council tax base	31,314.7	32,062.1	32,382.7	32,706.5
Council tax at band D (income ÷ base)	£ 249.84	£ 254.84	£ 254.84	£ 254.84
Percent increase or decrease	0.00%	£5.00	0.00%	0.00%

1.0 Base Budgets

- 1.1 The day to day costs of providing the Council's services (e.g. employees) and the income generated (e.g. fees and charges) are classified as revenue. The revenue budget is funded from council tax & business rates, government grants, commercial rents and fees & charges and reserves.

Service Budgets

- 1.2 The service budgets shown at the top of the MTFs are the base budgets for each year. These are rolled forward from the previous year, but also include a number of changes which are detailed in the following paragraphs. The changes included in base budgets are required to maintain the level of service currently provided. Where changes are proposed to services, the full details of the movements are shown in the growth and savings sections (below). The changes between base budgets are detailed by service in **Appendices 1a to 1d** which has a page for each year and a column for each of the different changes shown in the following paragraphs. All items included have been scrutinised, challenged and agreed by Leadership Team.
- 1.3 **Unavoidable growth** is additional cost which is needed to maintain the current level of service provision and relates to decisions already taken and factors outside the Council's control, such as contract inflation, legislative changes and demographic pressures. Full details of the Unavoidable Growth can be found in **Appendix 1e**. Salary changes are shown separately. These growth items are contained within the services' base budget figures. Key items in the total unavoidable growth are shown in the table:

Unavoidable Growth	2017/18	2018/19	2019/20	Total
	£000s	£000s	£000s	£000s
Temporary Accommodation <i>The cost of temporary accommodation for homeless people in the borough. This rising cost has been reported at £0.450 million during 2016/17, but homelessness is expected to rise with the continued implementation of the benefit cap and universal credit. A number of projects are in progress to attempt to mitigate this pressure.</i>	500	500	500	1,500
Waste <i>Increased costs of waste collection.</i>	148	148	148	444
Local Plan 2 <i>Additional budget required to complete the examination in public of Local Plan 2 in 2017/18. This will be funded from the Local Development Framework, Examination in Public reserve.</i>	42	0	0	42
Property Valuations <i>Cost of quarterly valuations of investment properties and annual accounts valuations of the whole property portfolio. The KPIs which require these valuations were approved by PIB.</i>	60	60	60	180
Revenues & Benefits - Postage <i>Rising costs of postage which is used in the processing of Council Tax, Revenues and Benefits.</i>	31	31	31	93
Annual Canvas of Electors <i>The annual canvas of electors has not been included in the base budget, so has now been added.</i>	34	34	34	102

Unavoidable Growth	2017/18	2018/19	2019/20	Total
	£000s	£000s	£000s	£000s
Mayoral Election <i>There is a mayoral election in 2018/19 and growth has been included to cover the cost.</i>	0	50	0	50
Contract Inflation & Demography <i>Expected increases in costs relating to contracts, including expected increases on re-tendering, indexation, and increases in costs relating to demographic change in the borough. Unless a different rate is specified in the contract an uplift of RPI (2%) has been applied where a contractual uplift is required</i>	126	207	300	633
Changes to Fees & Charges <i>Adjustments to fees and charges budgets relating to specific expected pressures principally in Planning, but also relating to budgets considered no longer achievable for printing and also for housing services formerly provided to Three Rivers District Council and Watford Community Housing Trust under contract.</i>	180	174	174	524
Total	1,121	1,204	1,147	3,572

- 1.4 **Efficiency savings** are ones which do not affect the level of service provision to the public, such as additional income generated from selling services, other changes to fees and charges (full details shown in that section of this report) or reductions in other items such as printing and stationery. Full details can be found in **Appendix 1f**. These income and efficiency items are contained within the services' base budget figures and key items in the total income and efficiency savings are shown in the table:

Efficiency Savings	2017/18	2018/19	2019/20	Total
	£000s	£000s	£000s	£000s
Commissioning Framework <i>Management of Community & Voluntary Commissioning Framework was carried out by Watford Community Housing Trust, but has been taken back in-house and is being delivered using existing resources. A saving has therefore been generated.</i>	(53)	(53)	(53)	(159)
Watford Health Campus <i>Income relating to the Industrial Zone South phase of the Watford Health Campus income originally budgeted for 2016/17 is now expected in 2017/18.</i>	(217)	0	0	(217)
Veolia Contract <i>In 2017/18 there are a number of changes to the waste contract which generate a net reduction in cost, including the removal of recycling banks, the reduced number of clinical waste collections, and the move from leased to Council owned vehicles.</i>	(69)	0	0	(69)
Review of Budgets <i>A review of budgets has found a number that are no longer required and can be included as savings.</i>	(12)	(21)	(21)	(54)
Services provided to partners <i>This is the net contribution to Council overheads made from Pest Control services provided to Three Rivers District Council, tree management services provided to Hertfordshire County Council, and HR Services provided to the new Hertfordshire building control company, Broste Rivers.</i>	(105)	(90)	(70)	(265)

Efficiency Savings				
	2017/18	2018/19	2019/20	Total
	£000s	£000s	£000s	£000s
Changes to Rental Incomes				
<i>This is the net income from the rental of the first floor of the annexe to the NHS, additional rent from Timberlake Car Park, new parking spaces renovated using funds from Programme Management Board, and income from the Watford Wi-Fi service.</i>				
	(121)	(146)	(146)	(413)
Total	(577)	(310)	(290)	(1,177)

1.5 **Changes to Salaries** relate to pay awards and rises due to increments, as well as the impact of changes to gradings and restructures which have been agreed in the year. The changes already factored into base budgets are considered unavoidable because they relate to decisions already taken and are required to maintain the current level of service. The difference between the previous MTFS 2016-19 and the new one 2017-20 are shown below, and relate to the total across 2017-20:

- **£0.183 million** - Increments given annually to staff expected to be awarded in 2019/20.
- **£0.104 million** - The pay awards budgeted for 2019/20, assuming 1% each year.
- **£0.369 million** - The net change to the pension contributions required by the Hertfordshire Pension Fund following the three yearly valuation.
- **(£0.324 million)** – The reduction from the restructuring of the property department, following the outsourcing of the strategic and operational management of the Property Investment Portfolio.
- **£0.534 million** – New posts added in the year.

1.6 **Revenue effects of capital** relates to the savings made and increases in rental, dividend or interest income as a result of the capital investment programme. These are included in based budgets on the basis that the schemes are approved. the highlights for 2017/18 are:

- **£0.142 million** - Property Investment Board – the Council set up its internal Property Investment Board (PIB) to review its property portfolio, with the remit of disposing of uneconomical assets and reinvesting in property that creates regeneration and delivers a rate of return greater than 5%. PIB has already disposed of **£5.126 million** of properties and acquired a new 19,000 square feet office in Rushden producing a net yield of 6%.
- **£2.433 million** - The Capital Programme includes an increase of **£15 million** to the size of the property investment portfolio, which will generate additional income in future years. Following approval by Cabinet in November, a further property (industrial estate) in Newcastle-under-Lyme was purchased for **£5.785 million**, (with a 5.5% yield) this has delivered an early saving in 2016/17.
- **£0.137 million** -Watford Health Campus – the Council has partnered with Kier to deliver, in conjunction with the West Hertfordshire Hospital Trust, a new health campus comprising the hospital, improved infrastructure, green space, and housing development. Revenue returns from the first phase of this scheme are already included in the budget at **£1.1 million**, but are expected to be greater than estimated last year. For further details on the Health Campus, please see below under Capital Investment Programme.

- 1.7 The base budgets also include the estimates of income from **Fees & Charges**, based on the Council's Fees & Charges Policy and the schedule of charges for 2017/18 (included separately with this report). There are no significant changes in the policy (though a new Watford 2020: Commercialisation strategy will come to Cabinet early in 2017/18). The majority of charges have been increased by inflation, and the additional income generated is expected to be **£0.655 million**. The breakdown by year and service are shown at **Appendices 1a to 1d**.

Corporate Budgets

- 1.8 The corporate budgets shown relate to items that are not directly linked to the delivery of services.
- ***Dividends and Interest earned and paid*** – the Council holds funds for the short and long term which are invested in line with the Council's Treasury Management Strategy. This generates income. In addition, the Council is a partner in the Watford Health Campus and has a number of other commercial initiatives from which it will receive dividend income. The Council also has a long term loan from the Local Enterprise Partnership and various other agreements which attract interest charges.
 - ***Pension Fund Deficit Payments*** – this payment is set by the Hertfordshire Pension Fund's actuary and relates to the estimated amount which needs to be set aside to fund future pension payments to which scheme members are entitled. The amount is set at the three yearly valuation, and has been reduced this year but rises through the MTFS period.
 - ***Revenue Provision for Capital*** – the Council is required to ensure that any borrowing is affordable and to set aside an amount from revenue ready for repayment. The Council makes these payments in line with its Minimum Revenue Provision (MRP) policy which is included in the Treasury Management Strategy. The current strategy does not require any payments in this MTFS period. This budget also includes the contribution from the Programme Management Board reserve that is funding the garages project.
- 1.9 The service and corporate budgets, and required changes are shown at **Appendix 1 (a to f)**.

2.0 Financial Planning: Growth and Savings

- 2.1 Services have also put forward proposals for **One off Discretionary Growth** items which continue to improve and develop services, but which require additional expenditure. Given the Council's effective services, overall financial position and the limited resources available, there have only been a small number of bids. The key one off bids (some funded from reserves) are as follows:
- **£0.500 million** - Commercialisation – funded from the Economic Impact Reserve, this funding is proposed to be awarded to progress Commercialisation ideas, subject to business cases and governance arrangements to be agreed as part of the Watford 2020: Commercialisation Strategy.
 - **£0.250 million** - Programme Management Board – in the MTFS 2014-18, the Council set aside **£1 million** to fund service change, invest-to-save proposals and improved service delivery initiatives and provide programme management support to the Council. This funding has now been exhausted, and so this discretionary growth request is to replenish the budget (**£0.250 million**) for the coming year, allowing it to continue to support projects

which generate improvements to services and savings. This is proposed to be funded from the Economic Impact Reserve.

- **£0.019 million** - Project Management for Parks – Additional budget is required to fund the rest of the cost of a 12 month extension of a project management post to continue work on parks development as the Woodside and Oxhey Park North projects get underway. The total cost of the post is £54k, but the balance has been funded by the Programme Management Board.
- **£0.015 million** -The Little Cassiobury project is about finding a sustainable end use for the building. The initial grant from Historic England will provide a dilapidation survey and cost schedule to bring the building back into use and maintain it on an annual basis, as well as suggesting possible future options for its use. This information will be available in April 2017 and officers will then recommend the next steps for the Council's involvement in this project.
- **£0.050 million** – following the restoration of Cassiobury Park, it is expected that on-going running costs and staffing will be covered by income generated from the day to day operation of the park. However, it is expected that this will take a year or so to build to a level adequate to cover costs. There is therefore a discretionary growth item to provide contingency in the first year.

2.2 Additional **discretionary growth** bids which require on-going expenditure are listed below:

- **£0.055 million**, falling to **£0.040 million** by 2019/20 - Watford Big Events: Ice Rink - The Big Events programme has improved the attractiveness of the High Street and proved popular with residents and businesses. Members are therefore asked to consider a bid for discretionary growth to continue to fund the Ice Rink for future years.
- **£0.020 million**, falling to **£0.010 million** by 2019/20 -Hertfordshire Home Improvement Agency (Disabled Facilities Grants Shared Service) – Watford is one of six Hertfordshire authorities working together on a new shared service. Whilst in the long run it is expected to be revenue neutral, or even generate income, it is expected that there may be some revenue costs arising during the transition period. This discretionary growth bid is to cover those costs.
- **£0.010 million** in 2017/18 and 2018/19 -Pest Control Apprentice – employing an apprentice will serve three purposes: It will support the corporate commitment to developing apprentices and this particular role will be highly valuable given the skill level of the job, the availability of roles (which is good) and the long term prospects for those with this vocation and profession; it will enable an efficient and effective way to support development of the service by providing a cost effective means of undertaking the job roles that don't require a fully qualified technician; and it will also enable the service to develop resilience and capacity as the service expands to include commercial work.

2.3 Services have been asked to put forward proposals for **income and efficiencies** which may mean changes to the ways in which services are delivered, but which would improve value for money. The items included for approval are:

- **£0.125 million**, rising to **£0.864 million** by 2019/20 - The strategic and operational management of the Property Investment Portfolio has been outsourced, and set a 5% annual increase in income target. This will require decisions on acquisitions and disposals to be taken by the Property Investment Board. The net increase in income when the contractor's fees are deducted is shown here.

- **£1.000 million** from 2018/19 - The Head of Service Transformation has been tasked with leading an ambitious programme, Watford 2020, of service transformation, commercialisation and digitisation. This is expected to generate £1m of savings annually from 2018/19, though will require changes to the ways in which services are delivered.

2.4 A breakdown of growth and savings, by service and year, can be found at **Appendices 2a and 2b**.

3.0 Reserves

3.1 The Council has set aside specific amounts as reserves for future policy purposes and to cover contingencies. The full schedule of reserves and the anticipated position is attached at **Appendix 3**. The proposed use of reserves for revenue in 2017-20 is as follows:

- **£0.750 million** -From the Economic Impact reserve to fund the Commercialisation and Programme Management Boards. These will support the transformation needed to continue to progress towards closing the gap.
- **£0.113 million** – is to be applied to partially offset the reported pressure in Temporary Accommodation from the Homelessness Prevention reserve.
- **£0.060 million** – from the Parks, Waste and Street Strategy reserve is being used to fund works on the Veolia contract. These are to be included in base budgets in future.
- **(£0.012 million)** - A loan to Skillmakers is funded from the Local Authority Business Growth Initiative, and will be repaid in the MTFS period.
- **£0.092 million** - From the Local Development Framework reserve to fund the completion and examination in public of Local Plan 2.
- **£0.045 million** - Agreed funding from the PMB reserve for project work in future years.
- **£0.300 million** - The Council has set aside funds to cover the costs of future pension payments. Some of these funds are to be applied to the additional payments required by the scheme actuary for 2018/19 and 2019/20.
- As agreed by Cabinet, where there is a gap remaining this is expected, for the time being, to be filled from the Economic Impact Reserve.

3.2 The Council also has capital reserves, which are discussed as part of the Capital Investment Programme.

4.0 Funding the Revenue Budget

4.1 The MTFS shown above indicates that the total Net Expenditure of the Council in 2017/18 is **£14.515 million**. This will be funded from a number of sources, which are detailed in the following paragraphs. 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.

4.2 The number of properties (known as the Council Tax Base) is calculated by adjusting for banding (so that a total number of Band D properties is known) and the effects of the Local Council Tax Reduction Scheme. The analysis of dwellings in **Appendix 8** for the 2016/17 Council Tax Base results in a figure of 31,314.71 after allowing for the Council Tax Reduction Scheme and a collection rate of 97% (an assumption unchanged from the 2016-19 MTFS).

- 4.3 The proposals included in this document that there will be a rise in the average Band D Council Tax of £5 (2.00%) in 2017/18 making the average annual Council Tax **£254.84** for 2017/18. This means that the Council expects to receive **£8.170 million** of Council Tax income in 2017/18. Each one percentage increase in the Council Tax rate generates approximately an **£80,000** increase in Council Tax revenue.
- 4.4 There are no proposals to change the Local Council Tax Reduction scheme for 2017/18 so there will be no change or new impact on applicants in 2017/18. It is proposed that a full review of LCTR scheme options is undertaken during 2017 and if agreed to adopt a new scheme the necessary consultation carried out. Any new scheme would need to be agreed by Full Council before 31 January 2017 for introduction in April 2018. Some of the key considerations that would be taken into account during the review are:
- Pensioners of pension credit qualifying age are fully protected. This principle in effect means there is no discretion in relation to people over pension age and entitlement rules for this group are set nationally.
 - Vulnerable groups should be protected as far as possible. There is no definition given to local authorities regarding which groups should be counted as 'vulnerable' so this is determined locally.
 - Work incentives should not be undermined. Local schemes should be designed to support work incentives and, in particular, avoid disincentives to move into work.

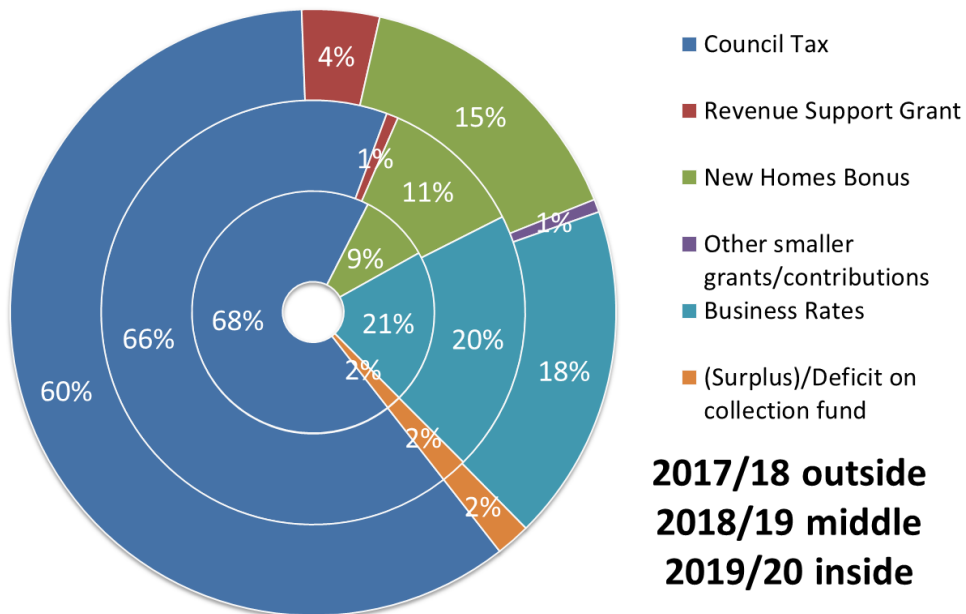
Schemes can be designed to suit the local demographic and local rules can be incorporated. The purpose of the review is to ensure the Council's support is provided to those with greatest need.

- 4.5 **Business rates** are collected by the Council, and the proceeds are shared between the Borough and County Councils, and Central Government to fund services. There is an element of risk involved in the Business Rates scheme, which is designed to incentivise Councils to promote business growth within their areas. The Council expects its share of business rates to be **£2.452 million** in 2017/18. Future plans for 100% rate retention are yet to be published by Central Government.
- 4.6 The council will make prudent estimates of the rate of collection of Council Tax and the size of the tax base. This is to allow for non-payments, discounts, bad debts, and periods where properties are unoccupied and therefore there is no tax payable. Where amounts of Council Tax collected exceed the estimates made, the surplus is shared between the relevant major precepting authorities (Hertfordshire County Council, Watford Borough, Council and Hertfordshire Police & Crime Commissioner). The Council's prudent estimates mean that it is possible to budget for a surplus of **£0.250 million** in 2017/18.
- 4.7 **Revenue Support Grant**, funded by Central Government. This was formerly the principal line of local Council funding, but this is now being phased out and replaced with local retention Business Rates income. As can be seen in the MTFS Summary, this therefore reduces to zero by 2019/20. In 2017/18, however, the Council will receive **£0.565 million**.
- 4.8 **New Homes Bonus**, is a grant relating to the number of new homes delivered in a local authority area. The Government consulted in December 2015 on possible changes to the scheme, and local authorities responded by 10 March 2016. The government has not yet issued a decision on the future of this grant, and so it is expected that it, or a similar grant, will continue in future years though at a lower level than in 2016/17. For 2017/18, based on

the provisional settlement, the Council expects to receive **£2.098 million**. Estimates for future years are harder to predict due to factors around timing of qualifying developments coming on line, but the Council has made realistic estimates of income in the MTFs.

4.9 **Other Grants** are received by the Council in the year, for example the Section 31 Grants provided to fund the costs of policy changes in year. The figures included in 2016/17 and 2017/18 relate to additional transition grant provided to assist Councils as Revenue Support Grant is withdrawn. In 2017/18 the Council will receive **£0.094 million** in transition grant.

4.10 The Council's funding of its net expenditure for 2017/18 is shown in the graph:



5.0 Capital Investment Programme

- 5.1 Capital costs relate to items providing benefits to the Council and community for more than one year (e.g. buildings). Any income from the sale of these items is also classified as capital. The Council has an approved capital programme budget which is designed to support the core services it provides.
- 5.2 The current capital programme was approved by Council at its meeting on 27 January 2016. Since that date the capital programme is reported regularly to Budget Panel with specific reports being considered by Cabinet which affect the originally approved programme.
- 5.3 The 2016-20 Capital Investment Programme presented for approval is as follows:

Capital Programme 2016-20	2016/17 Revised £000s	2017/18 Original £000s	2018/19 Original £000s	2019/20 Original £000s
Managing Director	0	0	0	0
Deputy Managing Director	1,271	2,871	2,825	2,450
Director of Finance	552	552	552	552
Service Transformation	1,514	595	530	530
Community Services	4,960	2,844	3,170	462
Democracy & Governance	357	1,000	400	400
HR Shared Service	0	0	0	0
Watford Health Campus	13,577	7,060	13,903	13,459
Other Major Projects	26,474	9,744	4,997	127
Annual Capital Investment Programme	48,705	24,666	26,377	17,980
Total Capital Investment Programme 2016-20		117,728		

- 5.4 The changes to the Capital Investment Programme (full programme shown in **Appendix 4**) are as follows and relate to the three different types of scheme – business as usual, existing schemes, and new schemes. Much of the capital expenditure which relates to major projects will be returned to the Council in future years as capital receipts. More details about these and the funding of the programme are shown in the next section, and **Appendices 5 and 6**.
- 5.5 There are a number of Business as Usual programmes which are included total **£2.5 million** and relate to the Disabled Facilities Grants provided to residents, as well as regular improvements and replacement of key Council assets such as buildings, vehicles and ICT. These are included for all years in the MTFs.
- 5.6 In addition, there are three new recurring schemes proposed to be added. These relate to additional posts (Quantity Surveyor, Finance Business Partner) to work directly on the Council's many capital projects which are expected to reduce anticipated expenditure in these schemes on expensive external consultants, an annual budget for 'client side' activity relating to the Watford Health Campus project, and a tree planting programme to improve the public realm within the borough. These increase the business as usual annual programme by **£0.230 million** per year.

- 5.7 One existing scheme requires additional growth in 2016/17 (**£8.315 million**). This relates to the new road opened in Watford in November 2016 at the Health Campus and is due to:

Explanation	Amount
The outturn costs relating to the completion of Thomas Sawyer Way, 2016 and provides a vital new link and access road to Watford General Hospital. This is a loan to West Hertfordshire Hospital Trust which is expected to be recovered in the long term.	£2.000 million
The initial costs relating to the first phases of residential development which will deliver homes in Watford, design and preparation works will take place in 2016/17 with the aim of securing planning permission in Spring 2017.	£0.358 million
The first phase of industrial development has begun and is expected to deliver employment in the area of the Health Campus as well as financial returns to the Council in 2017/18.	£5.957 million
Total	£8.315 million

- 5.8 Services have been asked to put forward proposals for new capital schemes for 2016-20 which will assist the Council in delivering its corporate objectives and improving services for residents, as well as generating revenue savings and returns where possible.
- **£4.000 million - Parks and Open Spaces** – schemes to deliver the sports facilities strategy by redevelopment of Oxhey Park North and improvement of tennis courts in the borough.
 - **£6.075 million - Community Services** – schemes to ensure that the Council’s existing temporary accommodation can remain in use (**£0.075 million**), to provide a budget for match funding works to Little Cassiobury (**£0.050 million**) and to increase the supply of temporary accommodation through using a modular scheme (**£6.000 million**).
 - **£0.580 million - Planning, Transport & Infrastructure** – schemes to improve the highway between Clarendon Road and St Mary’s Church and review the Community Infrastructure Levy charging regime for the borough.
 - **£34.124 million - Watford Health Campus** – these are the budgets for the first six phases of residential development at the Campus which are expected to deliver housing in Watford, as well as the Industrial Zone South employment zone and a new multi-storey car park. Approving budgets in place will mean that the Council is able to ensure its finances are sustainable and its plans are affordable in the medium term, as well as allowing the Partnership Board and Cabinet to sign off the schemes as and when they are approved under delegated authority to ensure that there are no delays in delivery of housing.
 - **£19.429 million – Property Investment Board** – budgets for the reinvestment of receipts from existing sales, and the proposed increase in size of the portfolio to generate increased, secure and long term revenue returns for the Council.
 - **£6.075 million – Loan to Hart Homes (Watford)** – this budget provides for a loan to be made to the Council and Watford Community Housing Trust’s joint venture company which will deliver affordable homes and temporary accommodation for use in 2018. Providing the loan will allow the Council to earn additional revenue as well as supporting the regeneration of the area and the provision of housing.

6.0 Funding the Capital Investment Programme

6.1 The Council must fund its capital programme, and it can do this from its reserves, capital receipts, and capital grants and contributions, as well as from revenue or, subject to prudential and affordable limits, from borrowing.

6.2 It is anticipated that over time the Capital outlay from projects such as the Health Campus and Property Investment Board will be recouped from the receipts received in terms of return of equity investment and the disposal of land and property. The timing of these receipts is shown below.

- **2016/17:**
 - **PIB:** receipts relating to further disposals of management intensive properties.
- **2017/18:**
 - **Watford Health Campus:** return of equity relating to Industrial Zone South and a receipt for the land used; return of a portion of the investment in the infrastructure phase of the project.
 - **PIB:** receipts relating to further disposals of management intensive properties.
- **2018/19 and future years:**
 - **Watford Business Park:** receipts relating to the disposals of interests in the business park, returning the investment in site assembly as well as an additional margin for the associated freehold.
 - **Watford Health Campus:** receipts relating to the next phases of the development (subject to business cases being approved) and the remaining infrastructure investment.

6.3 **Appendix 5** shows the details of the capital receipts and grants/contributions included in the budget.

6.4 Where the Council does not have sufficient contributions, receipts, reserves or revenue available to finance long term investment, it may use prudential borrowing to do so. This is subject to the affordability and prudential limits set out at a high level by the Government and in detail by the Council in its strategies. This borrowing may be from external providers, or internally from cash the Council holds day to day and its own reserves.

6.5 The Council’s ambitious programme of major projects and investment in service delivery means that it expects to have a borrowing requirement in this financial year. Officers have forecast the cash available to the Council as part of the budget setting process to see if this can be managed through internal borrowing rather than using external borrowing (although some of this will be met by the existing loans from the Local Enterprise Partnership of **£7.500 million**). The results of the cash forecasting exercise indicate that the proposed approach is affordable for the Council:

Cashflow Analysis	2016/17	2017/18	2018/19	2019/20
	Revised	Original	Original	Original
	£000s	£000s	£000s	£000s
Estimated treasury balance 1 April (including core cash)	54,270	17,478	12,022	24,650
Core cash requirement	(10,000)	(10,000)	(10,000)	(10,000)
Available for use balance 1 April	44,270	7,478	2,022	14,650
Business as usual use in year	(36,742)	(6,655)	3,628	12,425
Project use in year	(50)	1,200	9,000	(12,700)
Estimated available to use balance at 31 March	7,478	2,022	14,650	14,375
Core Cash balance	10,000	10,000	10,000	10,000
Estimated treasury balance 31 March (including core cash)	17,478	12,022	24,650	24,375

6.6 The full details of the proposed financing of the Capital Investment Programme are shown in **Appendix 6**, and the detailed cashflow forecast in **Appendix 7**.

7.0 Key Decision Limit

7.1 As the Council is now looking to be more commercial, including encouraging ideas from staff, it is considered that the current **£0.050 million** limit should be reviewed to enable ‘agile’ decisions to be taken to progress projects without the potential delay of placing them on the notice of executive decision and when the decision has been made being subject to the call-in period.

7.2 The legislation states that a key decision is one that would result in incurring expenditure (or making savings) which are **significant** having regard to the Council’s budget for the service or function concerned. A number of councils in Hertfordshire do not put an actual figure on this and very much leave it to the judgement of the decision maker as to whether it should be classed as a key decision. Hertfordshire County Council currently specifies **£0.5 million** as its base line. Officers feel that it is helpful to specify a figure to avoid inconsistencies in approach across the council and to be transparent. It is recommended that the figure of **£0.050 million** be raised to **£0.250 million**. This will give the ability to make decisions quickly, be flexible, and be more akin to a private sector approach.

7.3 All officer and delegated Portfolio Holder decisions will still be published regardless of the increase in the key decision limit. Councillors could set up e-mail alerts via modern.gov to receive notice of any published decisions that affect their ward if they wish.

8.0 Strategy for the Flexible Use of Capital Receipts

- 8.1 The Secretary of State has issued guidelines under the regulations which allow authorities extra flexibility in the use of capital receipts received in the year, where they are used for projects constituting qualifying expenditure which transforms services for residents, 'joins up' services with other public sector bodies, or makes on-going savings. Below are examples of how the Council may use its capital receipts more flexibly.
- 8.2 The Council is involved in a countywide project with five other authorities to bring together and improve the services offered to residents who require adaptations to be made to their homes. The objectives of the project are to:
- Ensure that all individuals in Hertfordshire who need housing adaptations to support independent living will have access to an appropriate service that is timely, accessible, equitable and fit for purpose to address rising demographic pressures
 - Deliver a fully standardised service, enhancing operational efficiency, customer satisfaction and improving value for money
 - Implement robust monitoring arrangements against key performance indicators
 - Improve service resilience through joined up working, adopting a common methodology and service standards, sharing staff knowledge, skills and expertise
 - Open up future opportunities to expand into private sector adaptations and align to wider Clinical Commissioning Group activity in order to maximise income generation, efficiency and value and impact of the DFG element of the Better Care Fund.
- 8.3 In addition, the Council is pursuing an ambitious transformation programme called Watford 2020. This will deliver change through a number of strands of activity:
- **Digital Town:** Deliver a Watford Town digital infrastructure that provides businesses and residents with the skills and technology needed to maximise opportunities and enhance lives.
 - **Digital Customer:** To transform how customer access our services - providing digital access to services that are designed around customers and a reception area that encourages self-service.
 - **Digital Council:** This project will provide a digital infrastructure within the Council that will improve service efficiency, deliver flexible and responsive services, and provide management information to support continuous improvement.
 - **Service Reviews:**
 - **Service Based reviews** – these will be an “end to end” review of services. The review will look for opportunities to streamline the service, ensuring they are customer focused, joined up and “digital by default” with as much manual work being automated as possible. The reviews will seek to make best use of modern technology to reduce duplication and maximise officer productivity e.g. providing access to mobile devices to work when out of the office rather than having to come back into the office to update systems.
 - **Cross-Departmental reviews** – these reviews will look for cross-departmental opportunities to improve efficiency and effectiveness e.g. by rationalising similar functions or IT systems.
 - **Commercial:** To take the Council on the journey so that it functions as a commercially astute business, that generates income and has an entrepreneurial approach to developing new commercial opportunities.

- **Supporting Strategies:** Key strategies will be developed to ensure we have the culture, skills, communications / engagement and technology in place to deliver the programme.

8.4 These projects may have transition costs which could be funded using the new flexibility, and it is the Council's strategy to do this where possible to invest these resources on improvements without creating an additional burden on the Council tax payer. Where receipts are to be applied flexibly in accordance with the policy, the expenditure will be reported to Cabinet and added to the capital programme. The impact on the prudential indicators and the Council's capital financing arrangements will be considered, assessed, and reported at the same time.

9.0 Key Risk Areas

- 9.1 The Council's budget is exposed to risks that can potentially impact on service level provision and financial stability. The consequences of the key risks are shown at **Appendix 9** together with a risk matrix that shows the likelihood and impact of each consequence if they were to materialise.
- 9.3 The matrix shows that there is an element of risk in setting the budget, and in particular for undertaking the large scale capital projects. The Council has a risk management framework and strong governance arrangements in place e.g. Property Investment Board, Major Projects Board and Budget Panel to monitor these risks.
- 9.4 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.
- 9.5 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.
- 9.6 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 has, in the past, commented they would not wish to see the General Fund Working Balance reduced below its current level of **£1.35 million**.

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BACKGROUND PAPERS:

2016/17 Finance Digests
Cabinet Reports
Fees & Charges
Treasury Management Strategy
2016-19 Financial Planning Report

APPENDICES:

Appendix 1 (a-f):	Detailed Base Budget Estimates 2016-20 by year and service, and detailed unavoidable growth and efficiency savings
Appendix 2 (a-b):	Detailed Growth and Savings 2016-20 by year and service
Appendix 3:	Reserve Movements 2016-20
Appendix 4:	Capital Investment Programme 2016-20 detailed summary by scheme, year and service
Appendix 5:	Capital Receipts 2016-20 detailed summary
Appendix 6:	Capital Financing 2016-20
Appendix 8:	Council Tax Base and Calculation 2017/18
Appendix 7:	Detailed Cashflow 2016-20
Appendix 9:	Consequences of Risks