

Report to: Budget Panel
Date of meeting: 27 November 2012
Report of: Head of Strategic Finance
Title: Budget Update

1.0 SUMMARY

1.1 This report provides a progress report upon revenue estimate preparation for 2013/2014 and in particular discusses issues associated with how the Council's net expenditure is financed.

2.0 RECOMMENDATIONS

2.1 The Budget Panel note the current situation..

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3.0 INTRODUCTION

3.1 It is customary at this stage in the budget process for the Budget Panel to consider variations to the current year's base budgets for inclusion within detailed estimate preparation for 2013/2014. These variances take the form of growth bids/savings proposals and recommended increases in fees and charges.

3.2 Budget Panel will be aware however that the funding by Central Government of local authorities in 2013/2014 will experience profound changes which include:

- the Chancellor of the Exchequer will announce his Autumn Statement on 5th December and this may well change the overall control totals for local government.
- the introduction of the Business Rates Retention scheme with effect from 1st April 2013 will almost certainly affect the re-distribution of government funding between authorities.
- the anticipated reduction in government support for the local council tax benefit scheme for Watford will not be known
- similarly the allocation of New Homes Bonus (a key component of Watford's receipt of central support) will not be known

3.3 Latest intelligence from the Department of Communities and Local Government (DCLG) suggests that the overall funding package for each local authority will not be announced until 'late December' which is a considerable delay on past years. In these circumstances it would not be sensible to make decisions upon Watford's expenditure estimates without having knowledge of central government support.

3.4 It is the intention therefore to provide sequential reports to Budget Panel's meeting on 16th January 2013 which will ensure all information is available to enable a series of key recommendations be made to Cabinet on 21st January.

3.5 The purpose of this report is to provide the Budget Panel with a greater understanding of how the component parts of the overall funding of services will be calculated and is discussed in subsequent sections of this report.

4.0 CENTRAL GOVERNMENT FUNDING

4.1 As indicated at paragraph 3.3, the different strands of government funding are unlikely to be known until 'late December' and it is anticipated will include:

- Watford's share of Business Rates
- Revenue Support Formula Grant (unless fully reflected within the Business rates allocation)
- New Homes Bonus
- Watford's share of local council tax benefit subsidy
- Homelessness Protection Grant (£281k in 2012/2013)

4.2 The Council has already been notified of the amount it will receive for administering the housing benefit system in 2013/2014. It will be £632,645 compared to £679,971 in 2012/2013 (a reduction of £47k, whereas the revised MTFs had built in a reduction of £21k).

4.3 The announcement of government support in late December will not include one year Council Tax Freeze grant of circa £84k or transitional grant relating to local council tax benefit (circa £26k for Watford).

5.0 COLLECTION FUND

5.1 The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the receipt of all business rate and council tax income. A large proportion of business rate income is paid over to Central Government (and 50% of this income will continue to be paid over in 2013/2014).

5.2 The residual 50% Business rates income and all council tax collected is then divided up as follows:

Watford Borough Council retain	16.52%
Herts County Council receive	73.78%
Herts Police Authority receive	9.70%

5.3 The Collection Fund should, wherever possible, aim to break even but this rarely happens due to the difficulty in forecasting accurately the collection levels of council tax and the subsequent calculation of provision for non payment of council tax. Further it is difficult to anticipate the numbers of new properties coming on line and consequently increasing the council tax base. Watford has, in the past, been cautious regarding the assumptions that affect the Collection Fund and has consistently generated more income at year end compared to its original estimate.

5.4 The table below indicates the level of variance that has occurred:
Collection Fund Surpluses:

Year	Total £k	WBC £k	HCC £k	HPA £k
2008/2009	547	90	406	51
2009/2010	899	148	666	85
2010/2011	1,083	179	799	105
2011/2012	10	2	7	1

These are all Outturn figures.

5.5 For 2011/2012 instead of declaring a surplus it was felt necessary to increase the Provision for Bad Debts by £788k and, as at 31st March 2012, the level of provision for council tax non payment was £2.588m. This should be compared to the gross income from Council Tax in 2011/2012 of £50.811m (an effective 5% provision for write off). This level of provision potentially benefits WBC/ HCC/ and HPA as it insulates them from any future bad news re Council Tax Arrears.

5.6 Budget Panel may be aware that Cabinet (at its meeting on 5th November) resolved that it would recommend to Council that the current national

Local Council Tax Support Scheme be adopted for 2013/2014 (no change to current system). This being subject to further consultation and that an increase in the Council Tax Base would cover any shortfall. It is hoped that Paragraphs 5.4 and 5.5 above provide the necessary evidence that this hope is more than just wishful thinking. In effect, Watford would take a more realistic view of its Council Tax Base in advance of any financial year and would assume a larger level of council tax income as a result. The consequence of this is that the Collection Fund at year end is more likely to be in balance and large future surpluses will be unlikely.

6.0 COUNCIL TAX COLLECTION RATES

- 6.1 The 2012/2013 Budget for the Council has been based upon collecting 97.5% of council tax (this will not all be collected within 2012/2013, but is anticipated to be ultimately collected through arrears recovery). Collection levels are monitored at the end of every month when a like for like comparison with previous years can be made. As at 31st October 2012, 64% of council tax had been collected and is identical to the position in 2011/2012. This is encouraging as there may have been a danger that collection rates would fall reflecting the wider economy.
- 6.2 For 2013/2014, the revised Medium Term Financial Strategy had assumed that collection levels in 2013/2014 would fall and that an ultimate 97% would be achieved. This was also based upon the fact that changes to the local council tax benefit scheme would adversely affect the client base and would result in increased arrears. Cabinet has now resolved there should be no change to the Benefit scheme in 2013/2014 so that particular pressure will not occur.
- 6.3 The collection rates in the current year will continue to be monitored and a recommendation on the collection rate for 2013/2014 will be made to Budget Panel and Cabinet in January 2013.

7.0 FINANCIAL IMPLICATIONS

- 7.1 There are no financial implications arising out of this report.

8.0 LEGAL IMPLICATIONS

- 8.1 The Head of Legal and Property Services comments that there are no legal implications arising out of this report.

9.0 POTENTIAL RISKS

Potential Risk	Likelihood	Impact	Overall Score
That central government funding proves significantly more adverse than anticipated.	2	4	8
That collection levels for council tax reduce alarmingly in the next 16 months.	2	4	8

10.0 EQUALITIES

10.1 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.

There are no proposals within this report that have direct equality implications.