Part A

Report to:	Cabinet
Date of meeting:	21 January 2013
Report of:	Head of Strategic Finance
Title:	Draft Revenue and Capital Estimates 2013 / 2016

1.0 SUMMARY

1.1 This report sets out:

- the draft revenue estimates for the period 2013/2016
- the draft capital programme 2012/2016

as the basis for Cabinet's recommendations to Council

1.2 The Cabinet will need to consider recommended levels of expenditure and funding for 2013/2014 and recommend the levels of council tax to apply for 2013/2014

1.3 The Cabinet is recommended to agree the Council Tax Base to apply for 2013/2014

1.4 The Cabinet will also need to consider the Medium Term Financial Strategy and be satisfied that the actions it has put in place will meet the forecast reductions in government grant in the period 2013/2017.

1.5 The report includes advice from the Head of Strategic Finance on the adequacy of general reserves and balances in the context of the four year planning horizon 2013/2017

2.0 RECOMMENDATIONS

That Cabinet

2.1 Resolves that, in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992, the amount calculated by Watford Borough Council as its Council Tax Base for the year 2013/2014 is 29,418 as outlined in paragraph 10.3.2 (and summarised at Appendix 7).

2.2 Note there will be no surplus or deficit on the Collection Fund as outlined in paragraph 10.4.3.

2.3 Approves the savings of £764,180 as detailed at Appendix 2.

2.4 Approves the growth of £848,170 and as detailed at Appendix 3

2.5 Notes the increase in income from fees and charges of £8,210 and as detailed at Appendix 4A and in doing so, to approve the proposed increases in fees and charges as detailed at Appendix 11.

2.6 Approves the summary of detailed estimates at Appendix 5

2.7 Approves all the assumptions made within the MTFS at Appendix 6 and includes an assumption of a council tax freeze for 2013/2014.

That Council be recommended to approve

2.8 The General Fund Budget Requirement for 2013/2014 of £15,021,480 as outlined at paragraph 8.2

2.9 The Capital Programme as set out at Appendix 10

And in doing so

2.10 To have regard to the Head of Strategic Finance's assessment of financial risks and the level of reserves, balances (Sections 10/ 11 and Appendices 8 & 9 refer).

To also delegate to the Head of Strategic Finance and Portfolio Holder the ability to amend these figures in accordance with decisions taken at the Cabinet meeting and any minor variations that may occur before the Council meeting on 30th January 2013.

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3.0 INTRODUCTION

3.1 The preparation and finalisation of the Budget for 2013/2014 has been completed against a background of unprecedented uncertainties relating to Central Government funding to local authorities. This has been exacerbated by extreme financial pressures both on the business community and household income. Cabinet considered many of these issues on 8th October 2012 as part of a report upon the Medium Term Financial Strategy.

3.2 The purpose of this report to Cabinet is to provide all relevant information to enable final decisions to be taken and recommendations to be made to Council and Functions Committee regarding expenditure and council tax levels for 2013/2014 and in particular:

- recommended expenditure levels for the period 2013/2016
- consideration regarding the use of reserves and balances
- future levels of council tax
- future strategies to meet the exceptionally stringent public expenditure reductions

4.0 AUTUMN STATEMENT 2012

4.1 The Chancellor of the Exchequer announced on 5th December an Autumn Statement covering the current and projected state of the UK economy. A synopsis of the main features was circulated to all members of the Council on 7th December and has been reproduced at **Appendix 1.**

4.2 The main features for local government are as follows:

- no additional local authority cuts in 2013/2014 (over and above what has already been factored in)
- an additional 2% cut in central government funding in 2014/2015 (this will be on top of the 7.2% indicative percentage reduction announced in the Public Expenditure White Paper published in October 2010). These reductions are in cash terms so that the real reduction after inflation will be larger. It is also possible that District Councils will be penalised more heavily as they do not manage elderly care budgets which have significant cost/ volume pressures.
- this profiled reduction in government support to local authorities will probably continue until 2018.
- that public expenditure pay awards should be capped at 1% (although this cannot be imposed on local authorities, the Employers Body tends to use this guidance in negotiations with the employees representatives).
- that the previously announced council tax freeze grant available in 2013/2014 (worth £84k to Watford) will also apply in 2014/2015.
- Authorities cannot increase council tax by more than 2% in 2013/2014 unless they hold a referendum.

- Local Enterprise partnerships to be given greater influence over the disbursement of regional funds.
- the proposed fuel duty increase planned for 1st January (3.02pence per litre) has been cancelled and there will be no further increases until September 2013.
- state pensions to increase by 2.5% in April 2013.
- working age benefits and tax credits to be capped at a 1% increase in the three years 2013/2015.
- the private finance initiative is to be revived (PF2).
- the Government is consulting on reducing unnecessary burdens from TUPE undertakings regulations.
- there will be various business rate exemptions and transitional relief.
- The Government will support local authorities that wish to create a combined authority or implement other forms of collaboration.

5.0 CENTRAL GOVERNMENT PROVISIONAL GRANT SETTLEMENT and BUSINESS RATES RETENTION

5.1 Following the release of the Autumn Statement, the Secretary of State for Communities and Local Government announced on 19th December 2012 the provisional Settlement for 2013/2014 and included the following funding for Watford:

	£k
• Formula Grant/ Business Rates	4,766
• New Homes Bonus	2,048
• Homelessness Prevention Grant	280
• Council Tax Freeze Grant	205
• Local Council Tax Benefit Subsidy	958

5.2 The first notification totals £4,766k and has reduced by £653k (12%) when compared to 2012/2013. This is a little misleading as the 2012/2013 figure included one year only freeze grant of £206k so the effective reduction is £447k (8.2%). This can be moderated slightly should the Council freeze council tax again in 2013/2014 as a one off grant of £84k is available (and is not included within the draft settlement reported above) but is discussed later in this report.

5.3 The notification of New Homes Bonus of £2,048,130 was made on 10th December and reflects past achievement within the area in generating additional housing and affordable homes and will continue to accumulate for the following three years. The corresponding figure in 2012/2013 was £1,540k and therefore shows a £508k increase. The fact that RSG/ Business rates has fallen but New Homes Bonus has increased is not a co-incidence. The DCLG has intentionally 'top sliced' / taken money away from the one grant to pump prime the other. Watford is in a fortunate position whereby its net completions of housing continues to rise so that the NHB grant largely compensates for the RSG/ Business rates loss. Many other parts of the country are not in such an enviable position and would suffer a net loss of government support.

5.4 NHB can be used for any purpose including supporting capital investment and Cabinet on 3rd December resolved that £3m of NHB should be set aside to support the Council's capital investment at the Health Campus (and this has been reflected within the revised Medium Term Financial Strategy later in this report).

5.5 Homeless Prevention Grant has been notified as being £280k (compared to £281k in 2012/2013) and it has been the case at Watford that expenditure on this initiative attempts to match available funding.

5.6 The announcement relating to the continuation of the original council tax freeze grant first awarded in 2011/2012. At that time, should an authority not increase its council tax then it would receive freeze grant equivalent to a 2.5% increase. This grant to continue for four years and will lapse after 2014/2015.
It should not be confused with the freeze grant introduced in 2012/2013 for one year only which again equated to a 2.5% council tax increase.
In profile terms the Council has/ will receive the following:

2011/2012	£205k
2012/2013	£410k
2013/2014	£205k
2014/2015	£205k

This can be increased by a further £84k per annum in 2013/2014 & 2014/2015 should it freeze its council tax in 2013/2014 and this is covered later in this report.
In total therefore the amount of grant Watford has maximised will probably be £1,193k and which has helped to support council tax payers during a period of austerity.

5.7 The local council tax benefit subsidy of £958k is Watford's re-imbursement of the amount paid out to council tax benefit recipients in our area and is explained in more detail at Section 7 of this report.

5.8 For the period 2014/2015 (the last year of the 4 year Government Expenditure Planning cycle) no reliable figures have been produced by government and the MTFS at Section 9 of this report has assumed a 10% cash reduction in 2014/2015 and a 5% year on year reduction thereafter. This may be optimistic and will need to be reviewed in due course.

5.9 A statutory consultation period has been provided within the draft settlement and which ends on 15th January 2013 but in reality and on past experience, any change is highly unlikely. It is suggested therefore that Watford does not make any representations to the provisional settlement.

5.10 The effects of the draft settlement have now been reflected within a revised Medium Term Financial Strategy and which is covered at Section 9 of this report.

6.0 BASE ESTIMATES 2012 / 2016

6.1 The Council has an established process whereby the vast majority of operational budgets remain unchanged year on year (apart from where unavoidable inflation needs to be built in). Base Estimates do change during the course of any year as a consequence of variations which are reported through the Finance Digest or by way of separate reports which are then considered by Budget Panel / Cabinet. Should approval be obtained then the base estimates will be adjusted accordingly and, in that respect, this report has taken into account all recurring changes to base estimates as at the Period 8 (end of November) Finance Digest.

6.2 The Base Estimates did experience a thorough review during 2010 through a comprehensive Service Prioritisation exercise which examined current service/ staffing/ efficiency levels and identified circa £3m of net expenditure reductions over a three year period. These reductions were then built into base estimates for 2011/2014 and have subsequently been adjusted to reflect a circa £320k shortfall. In accordance with Council's excellent record for financial planning, the SPP has been replaced with a Council 'Roadmap' in which a further savings target of £2m has been set to be achieved in the three year period April 2013 to March 2016. These efficiencies to be achieved through a combination of service redesign, channel shift, market testing and reviewing corporate and shared services costs. This target saving is still a work in progress with the first year (2013/2014) savings having been identified and reported at paragraph 6.3 below.

6.3 Savings Reductions to Base Budgets

6.3.1 The Road Map process requires £2m of further efficiencies to be identified over the next three years and Heads of Service and Portfolio Holders have been actively engaged in producing proposals to achieve these reductions. The savings proposals at **Appendix 2** details those savings which it is anticipated can be delivered in 2013/2014 and totals £764k, with a further £81k in 2014/2015..

6.3.2 This savings schedule has been considered by the Leadership Team and is considered achievable without any detriment to service delivery. There will however be one off costs relating to any reduction in staffing (although current vacancies and relocation to alternative posts will be sought in the first instance), the amount will be determined according to which staff are affected. The Council has a policy whereby any staff reduction must cover one off costs within a two year pay back period. The up front cost has been chargeable against an annual provision within Strategic Finance estimates of £75k or else from the Pensions Reserve which has been earmarked for this purpose.

6.3.3 The level of saving of £845k in a full year is encouraging but still requires a residual saving of circa £1,155k to ideally be identified. It is anticipated that the current review of waste, street cleansing, re-cycling, parks and open spaces will contribute significantly to this shortfall. Further proposals will be reported to Cabinet in due course.

6.3.4 Cabinet are requested to consider all proposed savings at Appendix 2.

6.4 Growth Additions to Base Budgets

6.4.1 During a period of severe expenditure reductions every effort should be made to reduce growth in base budgets to an absolute minimum**. Appendix 3** details those bids for growth which are largely unavoidable and total £848k in 2013/2014 (and reducing thereafter).

6.4.2 Some supplementary notes about these growth bids include:

- Additional posts of Programme/Project Managers (£63k per post) within Planning and Development to oversee major projects such as the Health Campus which has previously been resourced by expensive external consultants. It is anticipated that 50% of these costs can be charged against individual capital projects.

- Reduced income of £38k (Alternative Financial Model) from HCC where there has been reductions in waste deposited at landfill sites. The 'pot' of money available for distribution across Hertfordshire is determined by the County Council.
- An increase in the cost of Discretionary Rate Relief of £70k where the applicants currently meet existing Council policy criteria.
- shared service growth (£221k in total) relates to a combination of pay inflation (1%) combined with anticipated additional expenditure within the revenues and benefits areas where the use of agency companies is necessary to reduce backlogs to acceptable levels. This growth represents Watford's contribution to the Shared Services operational units.
- Investment interest will reduce (£55k) as the Council spends money funding the capital programme.
- The Head of Strategic Finance post was initially anticipated to be deleted from April 2013 and also assumed a 100% saving falling to Watford. It is now likely that it will not be deleted until July 2013 combined with the fact that the replacement Joint Section 151 Chief Finance Officer post (with Three Rivers) will only generate a 50% half share saving.

6.4.3 Cabinet is recommended to approve the growth detailed at Appendix 3 (in the sum of £848,170) in 2013/2014.

6.5 Fees and Charges

6.5.1 Any proposals for increases to fees and charges in 2013/2014 need to consider the following:

- what will be the extent of increases in costs that will impact upon the service under review. For example, the trade refuse service will be affected by higher disposal costs levied by HCC as well as increased fuel costs in operating refuse freighters.

- is there evidence that customer resistance is affecting current volumes of take up and further fee increases will be counterproductive. This is particularly relevant at the present time where household income has reduced in real terms.

- how do our current charges compare with alternative service providers or neighbouring councils.

- when was a particular charge last increased.

6.5.2 Heads of Service have considered all of these factors and their recommendations are reflected within the summarised Schedule of Fees and Charges at **Appendix 4A** and shows an increased level of income of £8k when compared to the base estimates for 2012/2013.

6.5.3 The major variations include:

- SLM proposals show no increase/ decrease in income this is for two reasons: Firstly the proposed increases are to cover increased running costs of the leisure facilities such as wages and utility costs. Secondly any variation in income levels will be reflected within the Management Fee (share of profit/ loss received by the Council).

- housing income is up largely due to a recent procurement exercise which has resulted in the Council retaining a greater share of income from managed properties.
- recycling income is down due to price/ falling volumes. This is particularly noticeable in the case of sales of paper where market prices have fallen considerably.
- license income is down as the charges are largely governed by statute.
- Parking (CPZ) income is up and has assumed a 10% increase in first permits and a 30% increase in second permits.
- development control income has fallen sharply and is due to the depressed state of the economy.
- Watford Market income has now been taken out of the fees and charges schedule as it is anticipated it will be managed by a Specialist Market Company and the difference between operating costs and income will be reflected within a management fee.

6.5.4 The scheme of subsidised/ concessionary support to those members of the community in receipt of income support is attached at **Appendix 4B** and reflects the decisions taken by Cabinet in January 2011**.**

6.5.5 The detailed schedule of proposed fee increases is attached at **Appendix 11** at the end of this report and requires Cabinet approval and the financial effects have been incorporated within detailed estimates.

7.0 LOCAL COUNCIL TAX BENEFIT

7.1 Cabinet will be aware from earlier reports that the DCLG announced it was implementing a 10% reduction in the amount of subsidy it reimbursed to local government for council tax benefit. This has had a profound affect upon the presentation of detailed estimates (and the Medium Term Financial Strategy).

7.2 In previous years the Council's Revenue Expenditure Budget showed all payments to council tax benefit recipients within the Taxation Client Account under the Strategic Finance budget head. Similarly the 100% receipt of government subsidy was also shown as an offsetting credit within the detailed net revenue expenditure—before 'how it was to be financed' was considered.

7.3 The circa 10% reduction in local council tax benefit proposed by DCLG, recognised that just reducing the subsidy off the net revenue expenditure would in effect mean that the district council would have to find the full effect of the reduction.

7.4 The DCLG therefore devised a change whereby the payment of council tax benefit would be applied as a reduction to the Council Tax Base and as an effective average 10% discount. This means that the Council Tax Base will be reduced from previous years.

7.5 To compensate for this loss of income from a reduced council tax base, the DCLG has introduced the council tax benefit subsidy as a new grant which for Watford has been notified as being £958,369 for 2013/2014 and is geared to current volumes of benefit payment. It is not clear whether this will be adjusted in the light of the volume of council tax benefit payments at the year end. Consequently due to the uncertainty attaching to volumes of activity, no notification of benefit subsidy has been made for 2014/2015 onwards (the MTFS at Section 9 has assumed the same level of support in future years).

7.6 These changes have altered the presentation of the revenue estimates and their funding and this is discussed in subsequent sections of this report.

8,0 SUMMARISED DETAILED REVENUE ESTIMATES

8.1 For 2013/2014, **Appendix 5** includes the following:

- all ongoing (recurring) variations reported through the Finance Digest in 2012/2013 up to and including the Period 8 Digest.
- the savings proposals detailed at Appendix 2
- the growth proposals detailed at Appendix 3
- the changes to fees and charges and as summarised at Appendix 4.

8.2 Appendix 5 therefore reflects a net revenue expenditure requirement for 2013/2014 of £15,021,480 and Cabinet is recommended to approve all detailed estimates comprising this control total.

9.0 MEDIUM TERM FINANCIAL STRATEGY

9.1 The MTFS was last reported to Cabinet on 8th October 2012 (and Budget Panel on 23rd October) and has now been updated to take into account all relevant factors. The MTFS actually covers a four year period whereas detailed estimates at Appendix 5 only covers a three year period. It is important however that both sets of figures are in total accord.

9.2 The MTFS at **Appendix 6** mirrors the Base Budgets at Appendix 5.
For 2012/2013 the Original Budget was £14,897,050 (as per Appendix 5) and this has been increased to £15,243,510 within the MTFS to reflect the variations to expenditure and funding that has occurred during 2012/2013 (up to and including the ongoing effects of variations reported within the Period 8 Finance Digest).

9.3 Appendix 6 then reflects all known/ forecast variations for the four year period 2013/2017 and it should be noted that the net expenditure totals for 2013/2016 all reconcile back to the summary net expenditure totals at Appendix 5. Both sets of figures have included a 1% provision in 2013/2014 and succeeding years for wage awards; and a 10% inflation allowance each year for utility and fuel costs. Allowance has also been factored in where current outsourced contracts/ procurements have an in built annual inflation allowance—typically RPI/ CPI; and business rates the Council pays on its own properties has also been index linked. All other expenditure heads have been cash limited on the basis that any inflationary increase should be nullified through improved procurement or reduced volumes of ‘activity/ supply’.

9.4 Appendix 6 also indicates how this net expenditure will be funded and included the following assumptions:

- Revenue Support Grant / Business Rates reflects the Secretary of State’s announcement on 19th December 2012 for 2013/2014 and has assumed this will reduce in cash terms by a further 10% in 2014/2015 and is consistent with the content of the recent Autumn Statement. It is anticipated to reduce by a further 5% in cash terms in the years 2015/2017 (and may be optimistic).

- No assumptions have been made regarding any increases/ decreases in income as a consequence of the new Business Rates Retention scheme introduced by Central Government.
- Council Tax Support Funding is Watford's share of the former council tax benefit subsidy received from Government and has been assumed to continue at the same level throughout the period.
- The CT Benefit Transitional Relief is a one year transitional grant to assist authorities in adopting a local council tax benefit scheme within government parameters. Cabinet will be aware of this issue as it considered it in some detail at its meeting on 5th November 2012.
- Council Tax Freeze Grant has reflected the issues discussed at Paragraph 5.6 earlier and has assumed council tax will be frozen again next year.
- The New Homes Bonus figure for 2013/2014 reflects the announcement made by government on 10th December 2012. For future years projected increases in grant reflect potential new net completions of residential property. The MTFS has also allocated part of the NHB to support the capital programme and this reflects the decision taken at Cabinet on 5th December 2012.
- The planned contribution to earmarked reserves relates to an annual £150k contribution to the Vehicle Replacement Reserve to enable future vehicles and plant to be replaced when time expired. This is important as the Council has effectively used up its current holding of capital receipts (see Section 13 later within this Report). The option would still exist to lease future vehicle replacements and an evaluation would occur in any event to assess which financing route provides best value.
- The line ''To/ From Reserves'' is effectively the balancing figure between the Council's net expenditure; receipt of government support/ grant; and raised from Council Tax.

9.5 The line To/ From Reserves is showing a drawdown from Reserves (Economic Impact Reserve) of £734,908 in 2013/2014; £908,013 in 2014/2015; £379,242 in 2015/2016; and finally £14,200 going into reserves in 2016/2017.. A total use of the Economic Impact Reserve of £2,007,963 (and this can be compared to the Forecast within the MTFS considered by Cabinet on 8th October of £1,873,000).
The fact the forecast suggests £10k going into reserves in the final year does indicate a sustainable budget will have been reached (albeit with considerable support from the New Homes Bonus).

9.6 The MTFS indicates that Service Prioritisation efficiencies of circa £2.68m will be achieved (against a target of £3m); that the Roadmap proposals are assumed to deliver £1.65m (against a target of £2m); that council tax will again be frozen (following its freezing in 2011/2013 and 1.4% reduction in 2010/2011).

9.7 Cabinet is requested to approve all the assumptions made within the MTFS at Appendix 6 and includes the freezing of council tax in 2012/2013.

10.0 FUNDING OF THE REVENUE BUDGET

10.1 The MTFS at Appendix 6 indicated that, for 2013/2014, net expenditure is estimated to be £15,021,480 and this will need to be funded from the following sources:

- Government Grant / Business Rates Redistribution
- Specific Government Grant (Freeze Grant)

- Council Tax
- Collection Fund Surplus
- General Fund Working Balance
- Use of Reserves

10.2 Government Grant

This was discussed in detail at section 5 of the report earlier.

10.3 Council Tax Base 2013/2014

10.3.1 The current analysis of dwellings for the 2012/13 Council Tax Base results in a figure of 33,980 (Band D equivalent) and is based upon a 100% collection level (see **Appendix 7** for analysis**)**. This is before the allowance for an average 10% 'discount' referred to at Paragraph 7.4 earlier. When the discount formula is applied to this Council Tax Base it actually results in a revised Band D base of 30,328 (a 10.75% reduction) and still represents a 100% collection figure.

10.3.2 It is anticipated that 2013/2014 will continue to be a difficult year for many households and an actual collection rate of 97.0% has been assumed in determining the council tax to apply next year (97.5% in current year) and the Council Tax base will therefore be set at 29,418 Band D equivalents (Appendix 7 details the calculation).

10.3.3 For the purposes of Medium Term Financial Planning it has been assumed that the council tax base will increase by the net addition of 350 dwellings each year for the following two years and 250 dwellings in 2016/2017 and is based upon advice from the Planning Policy Division of the Council.

10.3.4 No assumptions have been made regarding restricting benefit entitlement in 2014/2015 onwards. The Council will be recommended to not change the current scheme in 2013/2014 and to essentially fund the 10% fall in central government subsidy through an increase in the council tax base (before the discount) and through transitional government support and use of reserves. This may not be sustainable in 2014/2015 and will need to be reviewed during 2013/2014.

10.4 Collection Fund

10.4.1 The authority is required to review the balance on the Collection Fund annually and make an adjustment to the Council Tax for any surplus or deficit. Issues to be taken into account include collection levels and the degree to which council tax arrears will have to be written off. The current situation is that the Council is slightly below target to achieve a 97.5% collection rate for 2012/2013.

10.4.2 With regard to arrears write offs, the level of council tax arrears at 31st March 2012 was £4,564,000 and dates back over a 19 year period (albeit the arrears for 1993/ 2003 total £57k and should perhaps be written off). The majority of the arrears relate to 2011/2012 and is currently £1,161,084 and for which there is a good chance that payments in full will be made. ''Arrangements'' also exist for other arrears and will reduce over a period of time.

10.4.3 The Collection Fund at 31st March 2012 had a provision for bad debts of £2,588,000 and which it is anticipated will be sufficient to meet any ultimate write offs. In the light of these figures it is recommended that no deficit or surplus be declared for the Collection Fund and that the three 'preceptors' on the Collection

Fund—Watford / HCC / HPA be notified accordingly.

10.5 General Fund Working Balance

10.5.1 The General Fund Working Balance is very much a 'last resort' contingency to meet any overall outturn variation in revenue estimates (Cabinet has previously agreed that the Economic Impact Reserve would, in the first instance, be used to meet any budget shortfalls). In assessing the adequacy of the level of the working balance similar considerations to the retention of reserves need to be made. In this context the Council's external auditor (Grant Thornton) has commented in the past that he would not wish to see the General Fund Working Balance being reduced below its current level of £1.350m. This accords with Council strategy in any event and this level of Balance represents circa a 9% cushion compared to Net Revenue Expenditure (but only 1.2% of council gross expenditure and income).

10.6 Reserves

10.6.1 The availability and use of reserves is covered in more detail at Section 11 of this report.

11.0 USE OF RESERVES

11.1 Under section 25 of the Local Government Act 2003 there is a duty on Chief Financial Officers to report on the robustness of the estimates and the adequacy of reserves when the authority is considering its budget requirement and Members are required to have regard to this advice.

11.2 The Council has accrued a reasonable level of reserves due to its prudent financial management. The full schedule of these reserves is attached at **Appendix 8** with an explanation as to their intended use at **Appendix 8B** and is the anticipated position as at 1st April 2013 after forecast variances have been funded in 2012/2013. It is, however, necessary to distinguish between those reserves that are earmarked for specific expenditures or in support of the capital programme and those general reserves which are available to support annual revenue budgets.

11.3 Specific earmarked reserves include where a third party has contributed to that reserve such as the Charter Place Tenants reserve; or where a reserve has a statutory limitation on its use such as the Car Parking Zones reserve. Reserves in support of the capital programme include provision to replace/ maintain major assets and now also include £1.5m towards a new Market (Cabinet,5th November) and building up a £3m contribution from the New Homes Bonus towards the Health Campus (Cabinet, 3rd December).

11.4 With regard to general reserves they have mostly been created to enable specific future initiatives to be financed. So, for example, the Spend to Save reserve can be accessed to pay for up front costs where a pay back saving is anticipated at a future time.

11.5 General reserves also need to be maintained to meet projected shortfalls in revenue budgets. For example, the MTFS at Appendix 6 (and paragraph 9.5) indicates the use of £2.008m in the four years 2013/2016 to cover such shortfalls (and compares with the Forecast to Cabinet on 8th October of £1.873m).

11.6 The crucial aspect of using reserves is the fact that their use just temporarily finances a deficit. This deficit, at some point, needs to be funded from a permanent source of additional income or reduced expenditure. The use of reserves needs, therefore, to recognise they can smooth out the pace of required efficiency savings but ultimately permanent savings need to be achieved.

Factors Taken Into Account in Assessing an Appropriate Level of Reserves

11.7 It is always a difficult question regarding what are the correct level of reserves. There are some heads of expenditure which are quite volatile such as investment interest, housing/ council tax benefit, commercial rents, and future pensions liabilities. Each of these could feasibly vary significantly (and are largely outside the Council's control). It should be realised, of course, that the authority would be exceptionally unlucky to suffer adverse consequences from all major potential sources of adverse variation in the course of a financial year. An analysis of 'Key Risks' has been detailed at **Appendix 9** and which should be considered before making any decisions upon the use of reserves.

11.8 For a district council, where changes to a few areas can have a disproportionate impact, then a higher percentage of reserves to net expenditure is desirable. Whilst a 5% cushion might be appropriate for larger all purpose authorities, it is recommended that a 15% cushion against net expenditure is more appropriate for district councils. If this recommendation were to be followed then circa £2.25m of the general available balance/reserve should be effectively frozen.

11.9 By reference to Appendix 8 the available level of general reserves is £7.629m and, should Cabinet accept the need to retain £2.250m of reserves then it would indicate a residual balance of £5.379m is available to support revenue budgets. The MTFS at Appendix 6 indicates for the years 2013/2017 that £2.018m would be committed. There are however a number of key risks during this period that could require a further drawdown from reserves and these are referred to at Appendix 9.

12.0 RECOMMENDING THE COUNCIL TAX FOR 2013/ 2014

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

- current level of council tax for 2012/2013
- agreed level of expenditure for 2013/2014
- use of reserves
- level of Government Grant
- the Council Tax Base

12.2 In addition to these considerations the Mayor's strategic objective is that council tax rises should be below inflation and where the relevant inflation rate, the RPI for September 2012 was 2.6%. However, Central Government has made available a specific grant to all authorities that freeze their levels of council tax in 2013/2014 equivalent to a 1% increase in council tax (and this will apply for two years). For Watford this results in a potential increase in grant of £84k per annum for 2013/2015. Whilst this is not a massive inducement, the Secretary of State for Communities and Local Government has also announced that council tax cannot increase by more than 2% in 2013/2014 without triggering a referendum.

12.3 The main reason any authority would not take advantage of this support is that in the previous two years there has been a council tax freeze for most authorities and, once this freeze grant ceases, there will be a significant gap between the expenditure requirement and the artificially depressed levels of council tax. For 2013/2014 the Secretary of State's capping criteria at 2% provides very limited scope to increase council tax and it is recommended that Watford should again resolve to freeze council tax in 2013/2014 and this has been reflected within the MTFS at Appendix 6.

12.4 Within the parameters of robust budgets and the prudent use of reserves and balances the recommended level of council tax is ultimately a political decision.

13.0 CAPITAL PROGRAMME 2012 /2016

13.1 The Capital Programme was approved by Council at its meeting on 25th January 2012. Since that date the capital programme is reported regularly to the Budget Panel with a quarterly review by Cabinet. In addition specific reports have been considered by Cabinet and which have affected the originally approved programme. For example, Cabinet on 3rd December 2012 approved a report upon the Health Campus and agreed the earmarking of £3m of New Homes Bonus grant towards the Local Asset Backed Vehicle with Kier Construction.

13.2 The current capital programme is attached at **Appendix 10.** Cabinet should note that there is a Section highlighted as being new schemes and which require approval for inclusion within the capital programme.

13.3 These new schemes reflect a continuation of existing rolling programmes and include decent homes assistance; stand alone properties up to decent homes standards; affordable homes support; disabled facilities grants; capitalised repair to council properties; green and trade waste recycling bins; and ongoing ICT hardware replacement and project management.

13.4 There are also some new projects associated with relocation from the Health Campus redevelopment area and which include Farm Terrace allotments relocation and the creation of a replacement facility for the Hurling Club due to the construction of a new road.

13.5 Finally there are forecast expenditures related to a general upgrade to all allotment sites (which is dependent upon the redevelopment of Farm Terrace); a structural survey of all our car parks; the possible purchase of land for future redevelopment opportunities and a few miscellaneous projects such as property and environmental health systems software upgrades.

13.6 The Capital Programme at Appendix 10 also includes an assessment of likely available resources to finance all capital expenditure and includes assumptions regarding new capital receipts. It also reflects the £1.564m capital grant to be received from the DCLG towards a re-modelled refuse/ recycling service. It does not include any early receipts from the Health Campus and has not allowed for any new receipts to be generated from the Community Infrastructure levy which is to be introduced in April 2014.

13.7 The last two tables at Appendix 10 indicate that the revised capital programme once completed will leave a shortfall of funding of £672k for general fund schemes (which will be monitored as the programme develops) and a surplus of £560k for Section 106 projects.

14.0 CONCLUSIONS

14.1 The Budget for 2013/14 has had to be prepared against a background of continuing reductions in government support and the recent Chancellor of the Exchequers Autumn Statement has reinforced that this situation will continue until 2018. Combined with this, 2013/2014 will also see wholesale changes to the way in which local authorities will be funded in the future and this has increased the uncertainty in any medium term financial planning.

14.2 It is fortunate that the Council has been prudent in the past in building up its reserves during a more prosperous era because that foresight now enables the Council to seek to ride out the tide in the current depressed conditions. It is vitally important however that the Council plans to achieve a sustainable budget by the end of the current MTFS period and to that extent the service prioritisation process and Roadmap have shown the very best practice in financial planning.

15.0 CONSULTATION

15.1 Budget Panel has been fully engaged throughout this process and feedback from its meeting on 16th January will be circulated prior to the Cabinet meeting.

15.2 As part of the statutory consultation with business ratepayers copies of this report has been sent to the Watford Chamber of Commerce and the borough's Local Strategic Partnership-One Watford. Any feedback from business or partners will be reported at the meeting.

16.0 IMPLICATIONS

16.1 **Financial Implications**

These are adequately covered within the report.

16.2 **Legal Implications**

In the Constitution it is Council who is required to set the budget, which includes the Council Tax Base and setting the level of Council Tax. Cabinet therefore must forward it's recommendations on the budget to Council. The Constitution also requires that any recommendation from Cabinet to Council regarding the budget must be submitted before the 8th February in the preceding financial year to enable the Mayor to have the opportunity to call in any decision of Council on the budget. The Council must set its budget by 11th March 2013 for 2013/2014.

16.3 **Equalities**

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

16.3.2 This report provides an over view of Budget proposals. Any equalities impacts or implications for services arising from these proposals will be considered before changes to existing service levels are introduced and equality impact analyses will be developed where relevant.

16.4 **Potential Risks**

Potential Risk	**Likelihood**	**Impact**	**Overall Score**
That Cabinet does not agree the council tax base before statutory date	1	4	4
That Cabinet does not recommend revenue and capital estimates for 2013/2014 to Council	2	3	6
That Cabinet does not recommend a council tax to apply for 2013/2014	1	3	6
That Cabinet does not indicate how it intends to finance any difference between net expenditure and sources of funding	2	4	8

16.5 **Staffing**

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

16.6 **Accommodation**

There are no clearly defined proposals that will affect current accommodation standards. Part of the Property Review being carried out at the present time will involve seeking to identify opportunities to rationalise the Council's property portfolio.

16.7 **Community Safety**

All proposals relating to 2013 / 2014 Revenue Estimates will have taken into account the effect upon community safety.

16.8 **Sustainability**

The Council has established policies in the past to support sustainability such as the purchase of green energy (even though it is more expensive) through its procurement policies.

Appendices

Appendix 1	Summary of the Chancellors Autumn Statement 2012
Appendix 2	Revenue Savings 2013 / 2016
Appendix 3	Revenue Growth 2013 / 2016
Appendix 4	Summary of Fees and Charges Proposals for 2013/2014
Appendix 4B	Concessions Policy for Fees & Charges
Appendix 5	Summarised Detailed Revenue Estimates
Appendix 6	Medium Term Financial Strategy 2013/2017
Appendix 7	Council Tax Base 2013/2014
Appendix 8	Schedule of Reserves
Appendix 8B	Notes to the Reserves
Appendix 9	Key Risks
Appendix 10	Draft Capital Programme 2012 – 2016
Appendix 11	Detailed Schedules of Fees and Charges Proposals for 2013/2014

Background Papers

Regular reports to Cabinet/ Budget Panel
Chancellor's Autumn Statement, 5th December 2012
Government Statement re New Homes Bonus 10th December 2012
Draft Government Revenue Support (Formula) Grant Settlement 19th December
Detailed Budget Working Papers
Finance Digest as at Period 8 (circulated to all members of Council

File Reference

None