

KEY RISKS: Cabinet: 21st January 2013

In considering the levels of expenditure within the revenue estimates (and use of reserves) for 2013/2014 and future years, it is important that Cabinet consider the levels of risk which could affect the spending profile during the year:

- **Central Government Funding**

Unquestionably the largest risks to the Council's financial planning relates to potential variations to central government funding. There is the issue of how much central funding will reduce and following the December 'Autumn Statement' these reductions look set to continue until 2018. In addition to the general funding reductions to local government, there is also the impact of changes to individual councils. In that respect, the recently introduced Business Rates Retention scheme can have a significant impact upon future income (both positive and negative). Should an authorities business rate base fall then the effect will be shared with central government whereas it would have all fallen to the Government through the operation of the 'National Pool'.

Similarly, changes to the local council tax benefit subsidy system has now resulted in local authorities experiencing a shortfall in funding which can be manipulated in future years and disadvantage councils further.

The New Homes Bonus currently favours Watford and any change in its construction in future years could severely effect the Council's financial position. Council tax freeze grant will cease in the near future and, combined with the current 'Capping' regime will result in increasing pressure for Councils to utilise all their available reserves (which in itself is a dangerous position to be in).

Essentially, Councils currently can only really budget one year at a time as the vagaries (and significance) of central government funding makes any firm medium term financial planning rather optimistic.

- **Budget Variations Generally**

The Council has had a good record of keeping revenue expenditure within budget although the economic recession (and particularly the effect upon the business community) has taken its toll upon the Council's commercial rent income. The reduced level of income has largely been factored into the Medium Term Financial Strategy but a portfolio of circa £6.2m clearly represents a considerable risk area.

In relation to specific budget heads the following notes highlight the major issues that may affect future years base budgets.

- **Pay Inflation**

The draft estimates have been prepared on the basis of an annual 1% pay award for the four year period 2013/2017. This represents a considerable risk should wage awards exceed this provision. This has been slightly ameliorated by the fact that the base estimates for 2012/2013 had allowed for a 1% pay award and it is now virtually certain that there will be a pay freeze in the current year. This 1% still remains within the base estimates so, in effect, a 2% available provision has been included for 2013/2014. A 1% award equates to circa £160k.

- **Road Map Efficiency Savings**

A target £2m of savings had been set in the period 2013/2015. Good progress has been made in 2013/2014 with £673k of savings having been identified. Future savings should also be realised from refuse, recycling, street cleansing, parks and open spaces. The potential outsourcing of ICT should realise a further circa £200k per annum.

A contingency of £350k has also been included within the Medium Term Financial Strategy for non achievement of the full £2m.

- **Investment Interest**

An anticipated reduction in the size of the investment portfolio combined with rates of interest already at rock bottom has largely reduced this income stream as a key risk.

- **Commercial Rents**

The economic downturn has had a significant effect upon the business community and this has affected the Council's commercial rent portfolio which had contributed circa £7m towards supporting revenue expenditure. The MTFS/ detailed estimates has allowed for shortfalls in income in 2013/2014 which should provide enough 'comfort'.

- **Housing Benefit Payments/Subsidy**

The strict requirements placed on external auditors by the Department of Work and Pensions, coupled with the highly complex nature of the benefits legislation, pose a risk to the Council's ability to recover all its costs. Consequently a provision against withheld subsidy should continue to be maintained and the earmarked reserve statement includes £297k to meet any unforeseen liability.

- **Watford's Pension Fund Deficit**

All local authorities have deficits within their pension funds and it is hoped that Government reforms will alleviate some of the problems. The great danger however is that in seeking to increase employee contributions and reduce ultimate benefits there will in fact be a reduction in contributors to the pension scheme. This is potentially a 'time bomb' that could well blow up in the future. The Council's MTFS has allowed for a 1% increase in employers contributions in 2014/2015 but this may well prove insufficient.

- **The Economic Downturn**

The impact of the current economic downturn has already been reflected within the detailed estimates in relation to commercial rents, fees and charges and an increased demands on Council services such as assistance to the homeless. Reduced collection of business rates due to bankruptcies will now be shared between local authorities and central government following the introduction of the Business rates retention scheme. This introduces a major area of uncertainty. For Council Tax, the anticipated collection level in 2013/2014 has been reduced to 97% (from 97.5% previously).

- **Legal Challenge**

It continues to be appropriate to take account of the risk of legal cases being brought against the Council. As there is no budget provision for court costs, there will always be a risk of costs arising and even if the Council is successful, costs are not always recoverable. It is difficult to anticipate the quantum of any potential legal challenge which would need to be assessed on an individual case basis. Associated with this the Council may be required to reimburse land charges fee income it has collected in the past. This issue effects all councils and will need to be closely monitored.

- **Capital Programme**

The draft capital budget shows that there all forecast available resources have been committed and any further development projects need to be closely evaluated.

- **Adequacy of Reserves**

Grant Thornton (the Council's external auditor) has reported to the Audit Committee on 10th January 2013 regarding the Council's 'financial resilience' and concluded the level of reserves are more than capable of covering the net cost of service expenditure and that the Council holds an above average level of reserves.

With all of the potential risks highlighted earlier it provides some comfort that Watford has a cushion to attempt to insulate its community from the worst of the national downturn.