

BUDGET SETTING

2024/25 to 2026/27

**Medium Term
Financial Strategy**



1. Executive Summary

- 1.1. 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 2022, the budget monitoring activities carried out during the current year and the latest developments in funding, legislation and cost of service delivery.
- 1.2. Regular budget monitoring reports are presented to Cabinet, Finance Scrutiny Committee and the Corporate Management Board throughout the year. The latest budget monitoring report is available as at the end of November (Period 8).
- 1.3. Each year the council is required to set a realistic, achievable and balanced budget for the forthcoming year and indicative budgets for the medium term. The council defines medium term as the three-year period from the end of the current financial year (1 April 2024 to 31 March 2027).
- 1.4. The reductions in central government funding over the last decade, against a backdrop of increasing demand for services and high inflation, has created a challenging financial environment for local authorities. The Local Government Association (LGA) has stated that councils in England face a £4 billion funding gap over the next two years.
- 1.5. The [LGA statement on the Provisional Local Government Finance Settlement](#) for 2024/25 set out that that the settlement was not sufficient to meet the cost and demand pressures faced by councils and that, 'No council is now immune to the growing risk to their financial sustainability.'
- 1.6. The council has a good track record of delivering services to budget, achieving efficiency savings, generating additional income and minimising service growth in order to continue to provide value for money services to the public and set a balanced budget. This approach has been continued in preparation of the proposed MTFS, which has been guided by an agreed set of principles that help to ensure that budget proposals prioritise Council Plan commitments.
- 1.7. The proposed MTFS for 2024/25 to 2026/27 is set out below and in detail at Appendix 1.

	2024/25	2025/26	2026/27
	£m	£m	£m
Net Expenditure	14.626	14.704	15.209
Funded by:			
Planned Contribution to / (from) General Fund	0.285	0.000	0.000
Business Rates	(3.002)	(3.002)	(3.002)
Government Unringfenced Grant Funding	(1.363)	(0.575)	(0.575)
Deficit on Collection Fund	0.099	0.000	0.000
Council Tax Requirement	10.644	11.127	11.632
Council Tax Calculation:			
Council Tax Base	35,532.10	36,420.00	37,330.50
Council Tax Charge for Band D	£299.55	£305.51	£311.59

- 1.8. The proposed MTFS has been updated to include the latest information on government funding as set out in the Provisional Local Government Settlement, published by the Department for

Levelling Up, Housing and Communities (DLUHC) on 18 December 2023. It also incorporates proposals for investment in services, service efficiencies and income generation and sets aside funding to meet anticipated pay awards over the MTFS period.

- 1.9. Table 1 (on the next page) summarises the changes from the indicative budgets within the current MTFS set in January 2023. Explanations of the changes are set out in the main body of the report and in the detailed appendices.

2. Revenue

- 2.1. The table below sets out the changes between the MTFS agreed in January 2023 and the proposed MTFS at Appendix 1. Explanations of the changes are set out in the paragraphs below.

Table 1 MTFS Changes

MTFS Changes Summary	2024/25	2025/26	2026/27
	£m	£m	£m
Gap in MTFS at 1 April (approved in January 2023)	0.081	0.510	0.510
Changes to Net Expenditure:			
Growth, Savings & Efficiencies	4.894	2.072	0.871
Changes to Use of Earmarked Reserves	(4.996)	(2.772)	(1.066)
Net changes	(0.103)	(0.700)	(0.194)
Revised gap	(0.022)	(0.190)	0.316
Funding Changes:			
Council tax	0.341	0.104	(0.401)
Business Rates	0.000	0.000	0.000
Collection Fund	0.099	0.000	0.000
Additional Government Funding	(0.703)	0.086	0.086
Total Funding Changes	(0.263)	0.190	(0.315)
Contribution to General Fund	0.285	0.000	0.000
Final gap	0.000	0.000	0.000

- 2.2. The detailed MTFS is provided at Appendix 1. The proposed Net Expenditure budget for the council in 2024/25 is **£14.626m**.
- 2.3. The proposed MTFS is fully balanced, with forecast funding equal to net expenditure after planned use of earmarked reserves. However, as set out below, this is dependent on delivering savings across the MTFS, including some savings which are yet to be identified.

Growth, Savings and Efficiencies

- 2.4. The Year End Financial Monitoring Report 2022/23 and Financial Monitoring Report 2023/24 Quarter 1 identified that there were significant financial pressures facing the council that would continue to impact across the MTFS. These pressures were primarily driven by external factors, including inflationary pressures on pay and contracts and demand for services, including temporary accommodation. These pressures increased the budget gap in the MTFS from £0.081m to £2.000m in 2024/25, rising further to £3.000m by 2026/27 from the original gap of

£0.510m. As a result, an immediate savings target of £2.000m was set for 2024/25 with an expectation that further savings would be required over the MTFs.

- 2.5. A set of budget principles was agreed by Portfolio Holders to help guide the identification of savings to meet this target and was included in the Budget Planning Framework Report to Finance Scrutiny Committee in September 2023.
- 2.6. The budget principles set out that in managing the budget the council will:
- Prioritise our Council Plan commitments when we make financial and budget decisions;
 - Make sure we're doing all we can to cut our costs, reduce expenditure and generate income;
 - Balance the needs of our residents as council taxpayers, with providing the services our communities value most;
 - Ensure charged-for services keep pace with the cost of providing them and that Watford residents always come first when we review charges;
 - Make sure all our contracts are delivering good-value, quality services;
 - Explore different ways of delivering our services that would save money;
 - Minimise the impact of any changes in our services as far as possible;
 - Keep residents informed about our finances and seek views on which services they value, including through our People's Panel, before we make budget decisions;
 - Be open and clear when making budget and service decisions;
 - Keep up to date with any national changes that might impact our finances and be ready to respond if we need to review our budget;
 - Continue to be bold and ambitious for Watford.
- 2.7. The draft budget includes efficiency savings and savings from service changes of £2.238m in 2024/25, rising to £3.080m in 2026/27. Of these, £0.616m is expected to come from Service Redesigns in 2024/25 with the total saving increasing to £1.346m in 2026/27. Service Redesign savings are yet to be fully identified, although a significant portion of the savings for 2024/25 is expected to be achieved through voluntary redundancy. Staff were invited to apply for voluntary redundancy in December and arrangements will be confirmed in early 2024. Services impacted by voluntary redundancy and removal of vacant posts from the establishment will be prioritised in phase 1 of service redesign with remaining services following on.
- 2.8. The growth items included within the revenue budget address the ongoing impact of in year budget pressures in 2023/24.
- 2.9. The Directorate Budget Book at **Attachment 3** sets out the detail of the growth items, savings and efficiencies by service area.
- 2.10. Within the growth items is additional budget of £1.960m across the MTFs to pump prime and maintain the operation of the refurbished Colosseum, which is expected to be completed in Autumn 2024 subject to confirmation of the refurbishment timeline. The total budget required for the initial part year and over the following five full financial years of the contract is £2.499m, after which period the operation is expected to become self-financing, with the potential of delivering income to the council through a profit share mechanism between the council and the appointed operator. The following table sets out the budget profile to 2029/30 which is in line with the operator's business plan for the period:

Table 2 Colosseum Funding

2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
£m	£m	£m	£m	£m	£m	£m
0.816	0.694	0.450	0.197	0.172	0.170	2.499

2.11. The refurbished Colosseum will provide cultural infrastructure and it is, therefore, intended to use Strategic Community Infrastructure Levy (CIL) funding to support the pump priming and ongoing maintenance during the early years of its operation. Of this, £1.184m was already agreed to be funded from CIL by Cabinet on 13 March 2023. Cabinet is recommended to agree a further allocation of £1.500m from Strategic CIL to enable the signing of the contract with the operator. This will provide sufficient funding to meet the budget requirement up to 2029/30 and provide a contingency of £0.185m for additional costs.

Use of Earmarked Reserves

2.12. The budget includes the use of reserves to manage the timings of cashflows in relation to commercial income and income from the council's joint ventures. Further detail is provided section 4 below and **Appendix 9**.

Contribution to General Fund

2.13. The MTFS includes a contribution of £0.285m in 2024/25 to restore the General Fund to the risk assessed level of £2.000m. Further detail is provided in section 4 below and **Appendix 9**.

Impact of funding changes and Future Assumptions

2.14. The council receives its income from various sources to fund revenue expenditure on the services it provides. These are subject to fluctuation. The table below shows the adjustments to the budgets for the funding streams over the MTFS. These adjustments amount to a total increase in resources of (£0.389m) over the MTFS.

Table 3 Changes in Funding Against Budget

Funding Changes	2024/25 £m	2025/26 £m	2025/26 £m	Over MTFS £m
Business rates	0.000	0.000	0.000	0.000
Council tax	0.341	0.104	(0.401)	0.044
Collection Fund (Surplus) / Deficit	0.099	0.000	0.000	0.099
New Homes Bonus	(0.788)	0.000	0.000	(0.788)
Revenue Support Grant	(0.007)	(0.007)	(0.007)	(0.020)
Services Grant	0.092	0.092	0.092	0.277
Total	(0.263)	0.190	(0.315)	(0.389)

2.15. On 5 December 2023, the Department for Levelling Up, Housing and Communities (DLUHC) issued the 'Local government finance policy statement 2024/25'. This statement built on the policy statement issued in 2023/24 which covered both 2023/24 and 2024/25.

2.16. The policy statement confirmed that the increased flexibility for Council Tax outlined in the Chancellor's Autumn Statement on 17 November 2022, which increased the referenda limit by 1% to 3% or more than £5 (whichever is the greater) for 2023/24, was extended for 2024/25.

- 2.17. It was also confirmed that there would be a new round of New Homes Bonus (NHB) payments in 2024/25 but that this is a one-off allocation and will not attract legacy payments for future years.
- 2.18. The Provisional Local Government Finance Settlement 2024/24 was published on 18 December 2023. This confirmed the approach outlined in the policy statement and provided detailed grant allocations for 2024/25:
- Revenue Support Grant £0.107m
 - Services Grant £0.018m
- 2.19. The Provisional Settlement also includes an allocation for New Homes Bonus. However, this figure is subject to change as it based on Council Tax Base figures that have subsequently been revised. The estimated grant, calculated on the revised data, is £1.238m. The budget has been prepared based on this revised calculation.
- 2.20. The Provisional Settlement is subject to consultation, which closes on 15 January 2024 with the final settlement expected in February 2023. Any changes to the grant awarded to the council will be reported through the Year End Monitoring Report which will be presented to Council in July 2024.
- 2.21. 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 are known) and the effects of the Local Council Tax Reduction Scheme. The analysis of dwellings in **Appendix 2** for the 2024/25 Council Tax Base results in a figure of **35,532.1** after allowing for the Council Tax Reduction Scheme and a collection rate of 97%. Growth during 2023/24 has been lower than forecast and growth of 3.0% is still required to reach the tax base set for 2023/24. Therefore, there is no change proposed to the Tax Base for 2024/25 from 2023/24. It is currently assumed that the tax base will grow in both 2025/26 and 2026/27 by 2.5%.
- 2.22. The average Band D Council Tax charge for 2024/25 is proposed to be **£299.55**, a 2.99% increase from 2023/24. The MTFS includes an assumption that Council Tax will increase by 1.99% in 2025/26 and 2026/27, although this is indicative and subject to review through the budget setting process for 2025/26.
- 2.23. This Council's Council Tax Requirement for 2024/25 is **£10.644m**.
- 2.24. Further detail on the assumptions within the MTFS is set out the Financial Strategy for 2024/25 at **Appendix 3**.

3. Capital Investment Programme

- 3.1. The Capital Investment Strategy is set out in **Attachment 2**. The purpose of the capital strategy is to set out how the council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. The Capital Investment Programme details the schemes that will be delivered to deliver against the capital investment priorities.
- 3.2. The Capital Investment Programme includes three different types of scheme – business as usual (regular improvements and replacement of key council assets such as buildings, vehicles and ICT), major projects, and loans to subsidiaries and joint ventures. Much of the capital

expenditure which relates to major projects and loans will be returned to the council in future years as capital receipts.

- 3.3. The table below reconciles the Capital Investment Programme agreed by Council in January 2023 to the latest proposed capital programme. The proposed capital programme is set out in **Attachment 3 – Directorate Budget Book** at scheme level.

Table 4 MTFS - Capital Investment Programme

MTFS - Capital	Forecast	Draft Budget	Draft Budget	Draft Budget	MTFS
	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m
Original Capital Programme as Approved at Council (January 2023)	46.369	14.990	7.662	0.000	69.021
Approved rephasing and budget changes	0.465	4.942	7.292	0.227	12.926
Latest Budget	46.834	19.932	14.954	0.227	81.947
Virements and reprofiling	(10.618)	8.002	0.396	2.221	(0.000)
Savings and delays beyond MTFS period	(3.311)	(5.492)	(5.385)	0.000	(14.188)
Forecast	32.905	22.442	9.965	2.448	67.760
Growth Items					
Corporate, Housing & Wellbeing Place	0.980	1.143	0.030	0.610	2.763
Strategic Finance	0.000	0.000	0.000	0.677	0.677
Total Growth	0.980	10.474	0.545	2.081	14.079
Total Proposed Capital Programme	33.885	32.916	10.510	4.528	81.839

Funding the Capital Investment Programme

- 3.4. The council funds its capital programme from its reserves, capital receipts, and capital grants and contributions. Subject to prudential and affordable limits, the council may also borrow to support capital investment. 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 Capital Strategy (Attachment 3). This borrowing requirement may be raised from external providers, or temporarily met internally from cash the council holds day to day.

Table 5 Funding the Capital Programme

Funding Type	2023/24	2024/25	2025/26	2026/27
	Year End Forecast	Proposed Budget	Proposed Budget	Proposed Budget
	£m	£m	£m	£m
Grants & Contributions	1.919	8.613	0.055	0.057
Reserves	0.113	0.194	0.054	-
Capital Receipts	7.602	1.085	-	-
Section 106 & CIL Contributions	2.762	0.600	0.466	0.500
Land Transfer	3.830	5.626	6.900	0.227
Borrowing (Internal and External)	17.659	16.799	3.035	3.744
Total Funding Applied	33.885	32.916	10.510	4.528

- 3.5. The cost of borrowing associated with the delivery of the capital investment programme is included within the revenue budget and is dependent on interest rates and the period over which the borrowing is repaid.

- 3.6. The council’s proposed Prudential Indicators for Capital Finance are set out in **Attachment 2**. The Prudential Indicators provide a framework to ensure that the council’s capital investment plans are prudent and affordable.
- 3.7. When the current capital programme was agreed in January 2023, the Bank of England (BoE) base rate was forecast to peak at 4.5% in May 2023 and then fall to 2.5% by September 2025. As inflation proved more stubborn during the first six months of 2023, the BoE raised base rate higher than forecast to 5.25% in August 2023 and have subsequently maintained that rate. The governor of the BoE has indicated that interest rates will stay higher for longer. The latest forecast from the council’s Treasury Management Advisors expects base rate to fall gradually to 3.0% over the next 24 months to December 2025. The forecast for Public Works Loans Board (PWLB) borrowing is that rates for loans of between five and 10 years will reduce to 3.8% over the same period.
- 3.8. As interest rates have peaked higher and will remain higher for longer than previously forecast, the cost of undertaking capital projects funded by borrowing has increased over the MTFS. Delivery of the Capital Investment Programme as agreed by Council in January 2023 would create significant revenue pressures which would result in needing to identify further revenue savings across the MTFS.
- 3.9. A detailed review of the Capital Programme has been undertaken to ensure that the projections for capital spend are robust, realistic and affordable. This has included looking for opportunities to delay schemes, in some cases beyond the current MTFS period, that are funded by borrowing to a point when interest rates are expected to be lower, resulting in lower costs charged to the revenue budget and reducing the overall project costs. The changes to the capital programme are set out by scheme in **Appendices 4 to 7**.
- 3.10. This approach has protected the revenue budget whilst continuing to deliver significant capital investment over the next three years.

Levelling Up Funding

- 3.11. On 20 November 2023, the council received notification that it has been provisionally awarded £16.022m of grant funding from Levelling Up Round 3 (LUF3). The announcement set out that, for each project, DLUHC will support local authorities to complete a validation and onboarding process and that until that process is completed all funding announced will remain provisional.
- 3.12. The Council expects the validation and onboarding process to be completed before 31 March 2024, but not before the budget for 2024/25 is set by Council on 30 January 2024.
- 3.13. The council’s bid is formed of two projects: refurbishment of the Colosseum, and creation of an Innovation Hub and accompanying Small Business Grants scheme. For both projects, the council’s bid had a commitment to provide match funding:

Table 6 LUF Bid Summary

Project	LUF3 Grant £m	Match Funding £m	Total Project Cost £m
Colosseum	7.787	4.380	12.167
Innovation Hub and Small Business Grants	8.235	4.465	13.100
Total	16.022	8.845	24.867

3.14. The full budget for delivery of Colosseum is already included within the council’s Capital Investment Programme as part of the Town Hall Quarter Programme. It is funded by £2.4m of CIL (agreed in January 2023) and borrowing. However, there is currently no budget for the Innovation Hub and Small Business Grants. Funding for the innovation hub will require a business case, and the council will seek to work with DLUHC to reduce the level of match funding required given the council’s financial position. At present for the MTFS it is proposed that the receipt of £7.787m of grant funding towards the Colosseum will release an equivalent amount of borrowing which will be redeployed to provide the match funding for the Innovation Hub and Small Business Grants and provide an additional contingency across the wider Town Hall Quarter Programme.

3.15. **Appendix 8** sets out the additional budgets required to deliver the projects based on the initial bid. The budgets cannot be incorporated into the Capital Investment Programme until the funding is confirmed. Therefore, Council will be asked to agree a delegation to the Chief Finance Officer in consultation with the Elected Mayor to incorporate the necessary budget changes, as per **Appendix 8**, amended for any changes agreed through the validation and onboarding process, upon confirmation of funding enabling momentum to be maintained on the schemes.

4. General Balances and Earmarked Reserves

4.1. The Council has set aside specific amounts as reserves for future policy purposes and to provide contingency to manage financial risks. The General Balances and Earmarked Reserves Policy Statement 2024/25 is at **Appendix 9** and includes the forecast for the use of reserves over the MTFS.

4.2. The council has two reserves to manage general financial risks. These are the General Fund and the Economic Impact Reserve. It is forecast that the Economic Impact Reserve will be utilised in full in 2023/24 and the General Fund will fall below the risk assessed level of £2.000m. The MTFS includes allocation of £0.285m to return balances to the risk assessed level in 2024/25. This will be achieved by an additional drawdown from the Commercial Risk Reserve in 2024/25.

4.3. The following table sets out the expected movement over the MTFS:

Table 7 General Fund and Economic Impact Reserve Forecast

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
General Fund Opening Balance	(2.000)	(1.715)	(2.000)	(2.000)
Planned Contributions (to) / from reserves	0.285	(0.285)		
General Fund	(1.715)	(2.000)	(2.000)	(2.000)
Economic Impact Reserve Opening Balance	-0.990	0.000	0.000	0.000
Planned Contributions (to) / from reserves	0.990			
Economic Impact Reserve Closing Balance	0.000	0.000	0.000	0.000
Closing Balances	(1.715)	(2.000)	(2.000)	(2.000)

4.4. The council also holds Earmarked Reserves, which are designated to manage specific risks, future one off expenditure or timing differences between grant funding and expenditure. The table below provides a summary of Earmarked Reserve movements over the MTFS.

Table 8 Earmarked Reserves Summary

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Opening Balances	(35.065)	(28.792)	(22.791)	(19.961)
Planned Contributions (to) / from reserves	6.273	6.039	2.830	1.254
Closing Balances	(28.792)	(22.752)	(19.923)	(18.669)

- 4.5. It is proposed to create a £1.000m redundancy reserve from the Pension Funding Reserve in 2023/24 to support Service Redesign across the MTFs. The reserve will be used to meet the cost of redundancy, including pension strain costs, which are payable when employees are 55 years of age and over at the point of redundancy.
- 4.6. The Riverwell Project Reserve will be renamed the Commercial Risk Reserve to reflect the purpose of the reserve which is to smooth the impact on the general fund from fluctuations in income from commercial activities and joint ventures. The reserve was originally created from profit distributions from the Riverwell joint venture (Watford Health Campus Partnership LLP).

5. Key Risk Areas

- 5.1. The council's budget is exposed to risks that can potentially impact on service level provision and financial stability. Officers have identified some key risks pertinent to the information and forecasts in this paper.

5.2. Macroeconomic risks:

- **Inflation**

While inflation fell during the end of 2023 to 3.9% as at November 2023, the impact of two year's sustained high inflation continues to present a risk. A slowing in inflation will reduce future price rises but will not return prices to previous levels meaning that higher prices are baked into expenditure in future years.

- **Interest rates**

The Bank of England (BoE) base rate was raised to 5.25% in August 2023 and has been maintained at that rate. It is expected to decrease over the next 24 months to 3.0% with a corresponding fall in PWLB rates to around 3.8% for durations of five to 10 years. If interest rates do not fall as forecast this will create additional pressure on the council's capital financing revenue budget making new capital investment funded by borrowing unaffordable.

- **Cost of Living and risk of recession**

Economic growth has continued to be slow during 2023. Gross domestic product (GDP), used to measure the health of the economy, contracted by 0.1% between July and September 2023 and was 0% in the previous quarter between April and June 2023. There is a risk that the economy will have entered a technical recession if the economy is found to have contracted between October and December 2023 when data is released in February 2024.

The poor growth during 2023 has contributed to the UK having the sixth weakest growth rate in the G7 when comparing growth from the quarter October to December 2019 to the quarter July to September 2023. UK GDP has growth by 1.4% compared to growth in the US of 7.4%. UK economic growth is expected to remain subdued throughout 2024.

5.3. Local Risks:

- **Croxley Park**

The report to council on the purchase of Croxley Business Park outlined the risks the council was taking on as part of the lease arrangement. There is a substantial cash pot that the council has received to mitigate risks around rental shortfalls and planned programmed maintenance. The retention of this pot against these risks was taken into account in the council decision. The council holds two reserves in relation to Croxley Park. The first is the revenue earmarked reserve to manage fluctuations in rental income as a result of voids, which is forecast to be £11.357m at 31 March 2024. The second is the capital reserve to support ongoing capital improvements to the park. This is forecast to be £64.251m at 31 March 2024.

- **Commercial Income**

With all rental properties, there is risk of the property becoming empty and a void period occurring, either when a lease event occurs (such as a break clause or end of lease) or if a tenant defaults or enters administration. The commercial income budget includes additional income from commercial lettings at Inspire at Watford Business Park. A delay to achieving new lettings or unexpected lease events will create a budget pressure.

- **Development risk (changes in the market)**

If the market changes, then some of the development projects planned may not materialise and offer the benefits envisaged and would also impact adversely on some of the council's joint venture partnerships. The council holds the Commercial Risk reserve to mitigate against the risk of reduced income to the council's revenue budget.

- **Housing**

The housing service is demand led. It is likely to see high demand as residents seek support from the council as the cost of living crisis persists into 2024/25. Homelessness Prevention Grant allocations have been confirmed for 2024/25 (£0.656m). The grant allocation methodology includes enhanced transition arrangements to ensure that no authority has a reduction from their core allocation in 2022/23. DLUHC remains committed to a further review of the allocation methodology and there is a risk that funding will reduce from 2025/26 when current transition arrangements end. In addition, the council is dependent on the delivery of social housing through housing developments to enable residents to move on from temporary accommodation. A delay in delivery of new housing stock will create further demand pressures.

- **Service Redesign**

- **s and savings delivery**

The budget includes a savings target to be achieved through service redesign. These savings will have an impact on workforce capacity. This target is £1.346m at the end of the MTF5. Although some of this target will be achieved through voluntary redundancy, there will remain a significant balance that is still to be identified and there is a risk that this saving cannot be achieved or that there is a significant impact on services as a result of delivering the saving.

5.4. The detailed risk matrix is at **Appendix 11**. The council has a risk management framework and strong governance arrangements in place, including the Property Investment Board, Shareholder Board, Audit Committee and Finance Scrutiny Committee which monitor these risks.

6. Chief Finance Officer's Statutory Report

- 6.1. Under Section 25 of the Local Government Act 2003, the council's Chief Finance Officer (designated officer under section 151 of the Local Government Act 1972) must report to council on the following matters:
- a. the robustness of the estimates made for the purposes of the calculations, and
 - b. the adequacy of the proposed financial reserves
- 6.2. The Chief Finance Officer's Statutory Report is at **Appendix 10**.


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BACKGROUND PAPERS:
2023/24 Financial Monitoring Reports
2023-26 Financial Planning Report

APPENDICES:

Appendix 1	Medium Term Financial Strategy 2024/25 to 2026/27
Appendix 2	Council Tax base and calculation 2024/25
Appendix 3	Financial Strategy 2024/25
Appendix 4	New Capital Schemes
Appendix 5	Capital Virements and Reprofile
Appendix 6	Capital Programme Reductions
Appendix 7	Capital Programme Schemes delayed beyond MTFS Period
Appendix 8	LUF Capital Budgets
Appendix 9	General Balances and Earmarked Reserves Policy Statement 2024/25
Appendix 10	Chief Finance Officer's Statutory Report
Appendix 11	Risk Matrix

Medium Term Financial Strategy (MTFS) 2024/25 to 2026/2027

 WATFORD BOROUGH COUNCIL BE BOLD	Medium Term Financial Strategy		
	2024/25	2025/26	2026/27
	Draft £m	Draft £m	Draft £m
Current MTFS			
Corporate, Housing & Wellbeing Place	6.030 (0.322)	5.985 (0.514)	
Corporate Strategy & Comms	1.363	1.344	
Democracy & Governance	2.078	2.089	
Human Resources	0.596	0.597	
Strategic Finance	4.984	5.903	
Net cost of services	14.728	15.404	0.000
Financial Planning			
Additional Year			15.404
Salary Changes	0.338	0.301	0.343
Pressures, Growth and Other Variances	2.442	1.814	1.745
Timing of income from Joint Ventures and Croxley Park	4.392	2.755	1.779
Changes to use of Earmarked Reserves	(4.996)	(2.772)	(1.066)
Efficiency Savings and Service Changes	(2.238)	(2.691)	(3.080)
Fees & Charges	(0.294)	(0.358)	(0.358)
Contingency for Pay and Other Inflation	0.253	0.251	0.442
Sub-Total	(0.103)	(0.700)	15.209
Total Net Cost of Services	14.626	14.704	15.209
Proposed MTFS			
Corporate, Housing & Wellbeing Place	7.147 0.235	6.747 (0.214)	6.802 0.112
Corporate Strategy & Comms	1.458	1.425	1.449
Democracy & Governance	2.168	2.162	2.167
Human Resources	0.591	0.556	0.557
Strategic Finance	3.027	4.029	4.122
Net cost of services	14.626	14.704	15.209
Use of Corporate Reserves			
Contribution to General Fund	0.285		
Sub-Total	0.285	0.000	0.000
Funding			
Council Tax	(10.644)	(11.127)	(11.632)
Collection Fund (surplus) / deficit	0.099	0.000	0.000
Business Rates	(3.002)	(3.002)	(3.002)
New Homes Bonus	(1.238)	(0.450)	(0.450)
Additional Government Funding	(0.125)	(0.125)	(0.125)
Sub-Total	(14.911)	(14.704)	(15.209)
Total Funding & Use of Reserves	(14.626)	(14.704)	(15.209)
Council Tax Rate Calculation			
<i>Council tax base</i>	35,532.1	36,420.4	37,330.9
<i>Council tax charge for band D</i>	£ 299.55	£ 305.51	£ 311.59
<i>Council Tax Requirement</i>	10,643,641	11,126,797	11,631,926

Council Tax Base and Calculation 2024/25

WATFORD 2024/25	Properties by Band									
	Band A Disabled	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
1. Dwellings	0.0	721.0	5,510.0	16,162.0	13,514.0	3,814.0	2,337.0	1,921.0	86.0	44,065.0
2. Demolished	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	1.0
3. Exemptions	0.0	40.0	133.0	235.0	161.0	56.0	28.0	18.0	1.0	672.0
4. Long Term Empty Premium	0.0	2.0	11.0	27.0	12.0	5.0	0.0	0.0	0.0	57.0
5. Disabled Relief	3.0	20.0	28.0	-17.0	-13.0	1.0	-16.0	-6.0	0.0	0.0
6. Chargeable Dwellings (H)	3.0	702.0	5,410.5	15,923.5	13,346.0	3,760.5	2,293.0	1,897.0	85.0	43,420.5
7. Discounts x 25% SPD	0.0	281.0	2,452.0	5,270.0	3,281.0	719.0	359.0	235.0	5.0	12,602.0
8. Discounts x 25%	0.0	3.0	41.0	166.0	106.0	23.0	17.0	10.0	0.0	366.0
9. Discounts x 50%	0.0	0.0	0.0	3.0	12.0	5.0	4.0	9.0	7.0	40.0
10. Discount Deduction (Q)	0.0	71.0	623.3	1,360.5	852.8	188.0	96.0	65.8	4.8	3,262.0
11. Additions/ Reductions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12. Total Adjustments (J)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13. Sub-Total (H-Q+J)	3.0	631.0	4,787.3	14,563.0	12,493.3	3,572.5	2,197.0	1,831.3	80.3	40,158.5
14. Reduction Scheme (Z)	0.0	72.3	911.2	1,750.9	1,069.6	186.7	47.0	15.9	0.0	4,053.5
15. Net Dwellings ((H-Q+J)-Z)	3.0	558.7	3,876.1	12,812.1	11,423.6	3,385.8	2,150.0	1,815.4	80.3	36,105.0
16. Band Proportion (F)	5.0	6.0	7.0	8.0	9.0	11.0	13.0	15.0	18.0	
17. Band D Proportion (G)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	
18. Band D Equivalents	1.7	372.5	3,014.7	11,388.6	11,423.6	4,138.2	3,105.6	3,025.6	160.5	36,631.0

TAX BASE CALCULATION	
Total Band D Equivalents	36,631.0
Collection Rate	97.00%
Adjusted Band D	35,532.1

Financial Strategy 2024/25

Introduction

1. The Financial Strategy sets out the information and assumptions used in preparing the budget for 2024/25 and indicative budgets for 2025/26 and 2026/27:
 - Inflation
 - Tax base growth
 - Council Tax increases
 - Business rate growth
 - Government funding
 - Financial resilience

Inflation

2. High inflation during 2022 and 2023 has created significant budget pressures in 2023/24 and across the MTFs, primarily visible through pay inflation and contract inflation on the Veolia contract.
3. The latest Bank of England (BoE) [Monetary Policy Committee \(MPC\) Report](#), published on 2 November 2023, reiterated that interest rates would remain high for long enough to get inflation back to the BoE target of 2.0% as measured by 12 month Consumer Price Index (CPI).
4. The BoE forecast indicated that they expect CPI to fall gradually across the MTFs period to below the 2.0% target. The forecast for inflation at the end of quarter 4 for 2023 (December 2023) was 4.6%. CPI for November 2023 was already below this at 3.9%.
5. The Veolia contract is the most significant contract for the Council in terms of budget. The contract includes a provision for annual indexation based on a basket of indices, including the pay award and RPI. The indexation factor is heavily weighted to the pay award which is linked to the National Joint Council (NJC) pay award also paid to Council's staff. The pay award is therefore the biggest driver of inflationary increases across the Council's budgets.
6. Local Government pay is set independently of central government and councils do not receive additional funding from government to meet the cost of a pay award so increases must be found from within existing resources. The majority of councils are part of the NJC for Local Government Services which sets pay nationally. The NJC is comprised of employer and trade union representatives. In setting the pay award, the NJC will take account of the impact of inflation on the real term value of wages.
7. The table below sets out the BoE forecast and the estimates used to prepare the MTFs for pay inflation and contract inflation. It is assumed that pay inflation will fall over the MTFs period in line with the BoE forecast for CPI.

	2024/25	2025/26	2026/27
Bank of England Forecast for Q4	3.4%	2.2%	1.9%
MTFS Pay inflation	4.0%	3.0%	2.0%
MTFS Contract inflation	4.0%	3.0%	2.0%

Tax base growth

8. The Local Government Finance Act 1992 Section 31B (1) - (the Act), requires a billing authority to calculate a base which it, and the major precepting authorities (Police and County council), can use in the formula for setting their respective council tax charges.
9. Dwellings are banded for the purposes of Council tax with a proportion assigned to each banding relative to the value for band D. The council tax base must be set at the number of band D equivalents. The calculation to arrive at this figure is prescribed within The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, Statutory Instrument No 2914/2012.
10. The number of dwellings is also discounted for the expected collection rate. The collection rate was set at 97% for 2023/24. During 2023/24, the collection rate is slightly behind this target at 96.3%. However, additional resource is being put into collection over the remainder of the financial year and is expected to bring this back to target. It is therefore assumed that the collection rate will remain at 97% across the MTFS.
11. The MTFS agreed by Council in January 2023 set a tax base for 2023/24 of 35,532.1. This assumed growth of 4.2% from the 2022/23 tax base. The increase was based on the number of developments under construction or shortly to be in development and were expected to complete by 31 March 2024 which would deliver a 9.1% increase. Further growth of 3.8% was therefore forecast for 2024/25.
12. During 2023/24, completions of new dwellings has been slower than expected. As of September 2023, the actual tax base, adjusted for the collection rate, was 34,490.6. This is 3.0% behind the tax base set for 2023/24. The tax base for 2024/25 will be set at the same level as 2023/24 (35,532.1), recognising that underlying growth of 3.0% is required from September 2023 to achieve this.
13. Growth assumptions for 2025/26 and 2026/27 will be set at 2.5%, effectively reprofiling growth originally forecast for 2024/25 into future years as developments still come forward but at a slower pace as a result of the challenging economic environment and housing market.
14. The lower tax base growth during 2023/24 has also resulted in a forecast deficit on the Council Tax Collection Fund for 2023/24 of which £0.099m is attributable to the Council and will be recovered in 2024/25. Taking a prudent approach to the tax base for 2024/25 will reduce the risk of a further deficit needing to be recovered in 2025/26.
15. The resulting council tax base, after taking accounting of the collection rate is set out in the following table:

	2024/25	2025/26	2026/27
Increase (%)	0.0%	2.5%	2.5%
Increase (number)	0	888.3	910.5
Council Tax Base – Band D equivalents (number)	35,532.1	36,402.4	37,330.9

Council Tax Increases

16. The [‘Local Government Finance Policy Statement 2024/25’](#), issued by the Department of Levelling Up, Housing and Communities (DLUHC), confirmed that that the increased flexibility for Council Tax outlined in the Chancellor’s Autumn Statement on 17 November 2022, which increased the referenda limit by 1% to 3% or more than £5 (whichever is the greater) for 2023/24, was extended for 2024/25. However, no indication has been given to additional flexibility in future years.
17. It has been assumed that the referenda limit will return to the previous limit of 2% of £5, whichever is the greater, for the remainder of the MTFs period. This is on the basis that inflation is also forecast to reduce and the referenda limit is in place to ‘protect local taxpayers from excessive increases in council tax.’
18. The increase and resulting band D council tax charge is as follows:

	2024/25	2025/26	2026/27
Increase (%)	2.99%	1.99%	1.99%
Increase (£)	£8.70	£5.96	£6.08
Band D Council Tax (£)	£299.55	£305.51	£311.59

Business rate growth

19. The Autumn Statement on 22 November 2023 confirmed that the small business rating multiplier will be frozen at 49.9p and the standard business rate multiplier will be increased by 6.7% to 54.6p in line with inflation as measured by 12 month CPI in September 2023. Local authorities receive grant income to compensate for the freeze in small business multiplier equivalent to 6.7%.
20. There are no changes to the projected business rate income in the MTFs which already included growth from 2023/24 of £0.278m. If additional business rate income is achieved it is transferred to the business rate collection fund earmarked reserve to manage shortfalls and timing differences in future years.

Government funding

21. The government has a longstanding commitment to reform local government funding. The Local Government Finance Policy Statement 2024/25 confirmed that the government remains committed to improving the local government finance landscape in the next Parliament. However, the statement also confirmed that the approach to the 2024/25 local government finance settlement would not be fundamentally different to previous years:

“At the 2023 to 2024 Settlement, we heard calls from the sector for stability. Now is not the time for fundamental reform, for instance implementing the Review of Relative Needs and Resources or a reset of accumulated business rates growth. This continues to be the government’s position.”

22. The 2023/24 Local Government Finance Settlement introduced the principle that all councils would achieve a minimum increase in Core Spending Power of 3.0% before local decisions about levels of council tax increases. This principle was carried forward into the 2024/25 Provisional Settlement. The calculation assesses the value of the estimated growth in the council tax base (using a

compounded average of the growth over the previous four years) and the value of changes in government grant. Where this is less than a 3% increase on the previous year's core spending power a Funding Guarantee Grant is allocated to bridge the gap.

23. The Council has not been allocated any Funding Guarantee Grant as the Council has already achieved a 3.0% increase in core funding as a result of the draft New Homes Bonus allocation and estimated growth in tax base.
24. The Local Government Finance Policy Statement 2024/25 confirmed that there would be a further round of New Homes Bonus for 2024/25. The calculation methodology has remained the same as in previous years. Councils are rewarded for growth in the tax base, after allowing for the change in the number of properties empty for over six months, and the number of new affordable houses. The estimate for 2024/25 is £1.238m.
25. An estimate of £0.450m is included for future years. There is a risk that New Homes Bonus will not continue to in future years as government has previously consulted on removing the funding stream. However, it is expected that if this grant was removed, it would be replaced by alternative funding or transition arrangements that would protect councils from reductions in Core Spending Power.
26. Revenue Support Grant allocations for 2024/25 are based on 2023/24 allocations uplifted by 6.7%, being the CPI rate in September 2023. The Council's allocation has increased by £0.007m from £0.100m to £0.107m. It is assumed that the Revenue Support Grant will remain at the same level across the MTFS.
27. The total Services grant is derived from the resources available to DLUHC after decisions on all other grants. The overall grant has reduced from £783m in 2023/24 to £77m for 2034/25. As a result, the Council's allocation has significantly reduced from £0.110m to £0.018m. It is assumed that the Services Grant will remain at the same level across the MTFS.
28. During 2023/24 it was confirmed that a new funding stream relating to Extended Producer Responsibility for packaging (pEPR) will not be introduced until October 2025. At this stage it is not clear what the value of this funding will be, although Majesty's Treasury (HMT) and Department for Environment, Food and Rural Affairs (DEFRA) had previously committed to assessing the impact of the income of the relative needs and resources of local authorities in the coming year to factor into the local government finance settlement. The funding will replace recycling credits currently received by lower tier authorities from upper tier authorities which are accounted for within the Environment service. With limited information, it has been assumed that this will be neutral to the Council's overall funding position from 2025/26 onwards.

Financial Resilience

29. The Chartered Institute of Public Finance and Accountancy (CIPFA) briefing on the importance of financial resilience defines financial resilience as follows:

In simple terms, this is the ability, from a financial perspective, to respond to changes in delivery or demand without placing the organisation at risk of financial failure. This means having the agility and flexibility to forecast and manage both expenditure and income to meet requirements as they change while delivering a balanced budget.

30. The briefing identifies the following pillars to support the development of strong financial resilience:
- Strong Governance
 - A robust medium term financial plan
 - Integrated and aligned strategies and plans
 - Effective performance monitoring and reporting
 - Effective ownership and accountability
31. Accompanying the briefing, CIPFA launched the Financial Resilience Index in December 2019. It is a comparative tool intended for use by Chief Financial Officers to support good financial management by showing a Council's position on a range of measures associated with financial risk.
32. The index is updated annually and is compiled using publicly available data, primarily drawn from the 'Revenue Outturn' statutory return submitted annually to the Department for Levelling Up, Housing and Communities (DLUHC) following the end of the financial year. The latest version of the index, due to be released in January 2023, is based on data from the 2022/23 financial year.
33. The index has two headline indicators for financial stress that are relevant to lower tier authorities:
- Reserves
 - Debt and interest payable
34. The index can provide a helpful context for an authority's financial position relative to statistical nearest neighbours and the wider sector. However, local context is extremely important when interpreting the data.
35. The draft index shows that at 31 March 2023, the Council had unallocated reserves equivalent to 13.57% of net revenue expenditure for 2022/23 and earmarked reserves equivalent to 104.57%. The change in earmarked reserves was a reduction of 37.32%. As this is deemed to be higher risk when compared to statistical nearest neighbours. However, 2022/23 included significant adjustments in relation to business rate income through the Business Rate Collection Fund Reserve as a result of COVID-19.
36. The reserve sustainability measure provides a measure of how long in years it will take for a council to run out of their reserves if they continue to use them as they have and is represented as a year figure. The figure for Watford is 5.69 years. This is based on past activity and not on future projections.
37. Gross external debt was £303.069m. This includes external debt in relation to the Croxley Park Finance Lease. The ratio of interest payable to net revenue expenditure was 5.46%.

New Capital Projects and extensions to Annual Programmes

Project Proposal	Capital Growth			
	Proposed Budget 2023/24 £m	Proposed Budget 2024/25 £m	Proposed Budget 2025/26 £m	Proposed Budget 2026/27 £m
Place				
Environment				
Waste Collection Service Redesign				
One off capital investment is required to achieve ongoing annual revenue savings of £0.115m from the redesign of the waste collection service managed by Veolia.		0.250		
Veolia Vehicle Replacement Programme				
Update to forecast vehicle replacement costs and profile		0.047		0.194
Watford Market				
Creation of annual budget for minor capital works		0.015	0.015	0.015
Litter Bin Replacements				
Creation of annual budget for litter bin replacements		0.005	0.015	0.015
Shrub Replacements				
Additional year added to annual programme				0.005
Property and Asset Management				
Croxley Park Asset				
Capital works required at Croxley Business Park funded from the capital contribution received on acquisition of the asset through a finance lease.		7.399		
Core Investment Portfolio				
To provide capital expenditure for the council's core portfolio of investment properties including refurbishment of vacant premises and upgrade to ensure compliance with Minimum Energy Efficiency regulations.		1.300	0.160	0.200

Project Proposal	Capital Growth			
	Proposed Budget	Proposed Budget	Proposed Budget	Proposed Budget
	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Planning, Infrastructure and Economy				
CCTV Equipment				
Budget for replacement equipment		0.015	0.025	0.025
EV Charging Points				
Additional year added to annual programme				0.040
Neighbourhood CIL				
Small community grants		0.300	0.300	0.300
Total Growth Place	-	9.330	0.515	0.794
Corporate, Housing and Wellbeing				
Housing and Wellbeing				
Local Authority Housing Fund				
Grant funding to deliver homes for refugees	0.980	1.029		
Temporary Accommodation				
Renovations to existing property to increase capacity		0.085		
Environmental Health				
Decent Homes Assistance - Additional year added		-		0.100
Private Sector Housing Renewal - Additional year added				0.100
Housing				
Retained Housing Stock - Additional year added				0.050
ICT Annual Programmes				
Additional year added to annual programme				0.330

Project Proposal	Capital Growth			
	Proposed Budget	Proposed Budget	Proposed Budget	Proposed Budget
	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Corporate and Customer				
Building Investment Programme				
To provide capital expenditure for the council's core portfolio of properties		0.030	0.030	0.030
Total Growth Corporate, Housing and Wellbeing	0.980	1.143	0.030	0.610
Strategic Finance				
Capitalised Support Services				
Additional year added to annual programme				0.677
Total Strategic Finance	-	-	-	0.677
Total Growth	0.980	10.474	0.545	2.081

Capital Virements and Reprofileing

Directorate	Service Area	Budget	Virement / Reprofileing	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m	Virement / Reprofileing Description
Corporate Strategy and Comms		Town Boundary Signage	Reprofileing	(0.065)	0.000		0.065	0.000	Delay to scheme implementation
Corporate, Housing and Wellbeing	ICT and Shared Services	ICT-Hardware Replacement Programme	Reprofileing		(0.200)		0.200	0.000	Reprofileing of budget into final year of MTFS
	Customer Experience	Town Hall Refurbishment	Reprofileing	(4.801)	4.801			0.000	Reprofileing based on current delivery programme
		Colosseum Refurbishment	Reprofileing	(2.112)	2.112			0.000	Reprofileing based on current delivery programme
		Annexe Refurbishment		0.039	0.000			0.039	Budget realignment
		Town Hall / Colosseum Fabric Works	Virement	(0.039)	0.000			(0.039)	
Housing and Wellbeing		Retained Housing Stock	Reprofileing	0.012	(0.012)			0.000	Reprofileing based on current delivery programme

Directorate	Service Area	Budget	Virement / Reprofiting	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m	Virement / Reprofiting Description
Place	Planning, Infrastructure and Economy	Wayfinding & Public Art Strategy Heritage Trail	Virement	(0.169)			0.269	0.100	Delay to scheme implementation and merger of budgets
					(0.100)			(0.100)	
		EV Rapid Charging Points Programme	Reprofiting		(0.020)	(0.020)	0.040	0.000	Reprofiting based on current delivery programme
		High St Phase 2 (St Mary's)	Reprofiting	(0.457)			0.457	0.000	Delay to scheme implementation
		Parades Improvements	Reprofiting		(0.100)		0.100	0.000	Reprofiting based on current delivery programme
		Parades Improvements Public Realm (Bridle Path Improvements)	Virement	(0.054) 0.054				(0.054) 0.054	Budget realignment
		Lower High Street	Reprofiting	(0.100)			0.100	0.000	Delay to scheme implementation
		Green Spaces Strategy			(0.200)			(0.200)	Budget realignment
		St Albans Rd Imp Works (Ph 2)	Virement		0.100	0.100		0.200	
		Public Realm (Clarendon Rd Phase III)	Reprofiting	(0.070)	0.070			0.000	Reprofiting based on current delivery programme
		Cycle & Road Infrastructure Improvements	Reprofiting	(0.416)	(0.200)	0.416	0.200	0.000	Reprofiting based on current delivery programme
TTIW Delivery Programme	Reprofiting		(0.100)		0.100	0.000	Reprofiting based on current delivery programme		

Directorate	Service Area	Budget	Virement / Reprofiting	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m	Virement / Reprofiting Description	
Place cont.	Property and Asset Management	Community Asset Review	Reprofiting		(0.100)		0.100	0.000	Reprofiting based on current delivery programme	
		Watford Riverwell	Reprofiting	2.457	(1.857)	(0.600)		0.000	Reprofiting based on latest draft Business Plan	
		Surplus Site - Land Acquisition (Site A)		0.140				0.140	Budget realignment	
		Surplus Sites Infill Sites (LEP funded)	Virement		0.300	0.100		0.400		
	Environment				(0.540)				(0.540)	
		Flats - Extension Of Recycling Provision			(0.021)				(0.021)	Budget realignment
		Veolia Capital Improvements	Virement	0.010	0.011				0.021	
		Allotment Provision	Reprofiting	(0.050)	0.050				0.000	Reprofiting based on current delivery programme
		Vicarage Rd - WFC Memorial Area		(0.060)					(0.060)	Budget realignment
		North Watford Cemetery Improvements	Virement		0.060				0.060	
		Watford Market Tree Planting Programme		0.015					0.015	Budget realignment (balance from Capital contingency below)
		Cassiobury Park Wetlands		0.019					0.019	
		Cassiobury Park Ad Hoc Works	Virement	(0.008)					(0.008)	
		Parks - Building Investment		(0.004)					(0.004)	
Tree Planting Programme	Reprofiting	0.022	(0.022)				0.000	Reprofiting based on current delivery programme		
Shrub Replacement (Open Space)	Reprofiting	(0.020)				0.020	0.000	Reprofiting based on current delivery programme		

Directorate	Service Area	Budget	Virement / Reprofiting	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m	Virement / Reprofiting Description
Place cont.	Environment cont.	Water Fountains in Green Flag Parks	Reprofiting		(0.020)		0.020	0.000	Reprofiting based on current delivery programme
		Woodside Sports Village	Reprofiting	(0.950)		0.400	0.550	0.000	Reprofiting based on current delivery programme
Strategic Finance		Capital Contingency	Reprofiting	(0.300)	0.300			0.000	Reprofiting based on in year forecast
		Capital Contingency	Virement	(0.022)				(0.022)	Budget realignment
		Land Transfer - Croxley View Phase 3	Reprofiting	(3.130)	3.130			0.000	Reprofiting based on latest draft Business Plan
Total Virements and Reprofiting				(10.618)	8.002	0.396	2.221	0.000	

Capital Programme Reductions

Budget	2023/24 £m	2024/25 £m	2025/26 £m	Explanation
Watford Riverwell			(4.299)	As per Watford Health Campus Partnership LLP Business Plan
Veolia Contract Fleet Requirements			(0.011)	As per current fleet replacement programme
Flats - Extension Of Recycling Provision	(0.045)			In year saving on capital budget with additional implementation costs met from the revenue budget
Infill Sites (LEP funded)	(0.301)			Rationalisation of budget with Surplus sites
St Albans Rd Imp Works (Ph 2)	(0.011)			In year saving
Paddock Road Depot Enhancements	(0.066)			In year saving
Oxhey Grange-Bowling Gr'N Imps	(0.049)			In year saving
Cassiobury Park Tennis Courts	(0.040)			In year saving
Watford Tennis Partnership	(0.025)			Scheme removed from programme pending full business case
Lea Farm Recreation Improvements	(0.012)			In year saving
Oxhey Park North	(0.041)			In year saving
Footpaths - Cassiobury Park Nature Reserve	(0.096)		(0.100)	Capital budget removed - maintenance funded through revenue
Footpaths - Cassiobury Park	(0.044)		(0.100)	Capital budget removed - maintenance funded through revenue
Water Fountains in Green Flag Parks	(0.025)	(0.005)	(0.025)	Programme reduced from two drinking fountains per year to one drinking fountain per year
Orchard Park Ballproof Fence & Astroturf Wicket		(0.060)		Planned scheme is not viable
Orchard Park & Callowland Cricket Improvements	(0.014)			In year saving
Land Transfer - Rear Of High St	(0.760)			As per Hart Homes Development LLP Business Plan
Land Transfer - Scheme A	(0.605)			As per Hart Homes Development LLP Business Plan
Land Transfer - Scheme B	(0.530)			As per Hart Homes Development LLP Business Plan
	(2.663)	(0.065)	(4.535)	

Capital Programme Schemes delayed beyond MTFS Period

Budget	2023/24 £m	2024/25 £m	2025/26 £m	Explanation
ICT-Hardware Replacement Programme	(0.100)			Right sizing of budget across MTFS period
Play Area Improvements	(0.085)	(0.055)	(0.075)	Right sizing of budget across MTFS period
Tree Planting Programme		(0.003)	(0.025)	Right sizing of budget across MTFS period
Community Asset Review	(0.055)	(0.050)	(0.400)	Right sizing of budget across MTFS period
Cycle & Road Infrastructure Improvements			(0.250)	Programme will be delivered over an extended period beyond the current MTFS
TTIW Delivery Programme	(0.286)	(0.050)		Right sizing of budget across MTFS period
Parades Improvements	(0.225)		(0.100)	Programme reduced from two parades per year to one parade per year
Woodside Sports Village		(5.269)		Work on the Pavilion delayed to 2026/27 and 2027/28 resulting in some budget moving outside the current MTFS period
	(0.751)	(5.427)	(0.850)	

Levelling Up Funding – Capital Programme Changes

Budget	2024/25 £m	2025/26 £m	2026/27 £m	Explanation
Innovation Hub	7.735	4.365		Creation of £12.1m budget for delivery of Innovation Hub
Small Business Grants	0.500	0.500		Creation of £1.0m budget for capital grants to small businesses
Additional THQ Programme Contingency	2.922			Programme wide contingency to manage construction price inflation
Total	11.157	4.865	0.000	

General Balances and Earmarked Reserves Policy Statement 2024/25

Summary

1. As set out in Part 4 Section 7 of the council's Constitution (paragraph B.15), it is the responsibility of the Chief Finance Officer to advise the Executive and/or the council on the prudent levels of reserves for the council. This policy sets out the council's approach to determining and maintaining the appropriate level of general balances and earmarked reserves held on the Council's balance sheet, as recommended by the Chief Finance Officer.
2. In making these recommendations the Chief Finance Officer is cognisant of their obligations under Section 25 of the Local Government Act 2003 to report to Council on the adequacy of proposed financial reserves when setting the budget.
3. The policy is prepared with reference to the CIPFA Financial Resilience Index and associated guidance 'The importance of financial resilience'.
4. The governance arrangements for the use of earmarked reserves are set out within the Budget and Policy Procedure Rules which form Part 4 Section 4 of the council's Constitution.

Statutory Position

5. The provisions of the Local Government Finance Act 1992, Section 31, have the effect of obliging a local authority to set a balanced budget, by providing that its forecast expenditure must align with its forecast income. The forecast income may include transfers from the authority's reserves, but this must be specified in the calculations. Similarly, reserves can be used to carry money forward into future years.

Level of General Balances

6. General Balances are held by the council to mitigate budgetary risk. There is no statutory guidance on the level of balances that should be held by an authority. However, it is considered prudent to maintain a level of balances that is commensurate with financial risk.
7. An annual risk assessment is undertaken by the Chief Finance Officer to establish the appropriate minimum level. For 2024/25 this is recommended to remain at £2.000m. This equates to 13.7% of the council's Net Expenditure budget for 2024/25 and is deemed to be sufficient to manage unexpected financial pressures in 2024/25.
8. In addition, and as set out below, the council holds reserves for specific financial risks which would be drawn upon before General Balances are utilised. The adequacy of these reserves is also considered when the risk assessment is undertaken.
9. Based on the latest financial monitoring position to the end of November 2023, the level of General Balances at 31 March 2024 are forecast to be below the risk assessed level. As the risk assessment provides a minimum level for balances, it is prudent to return balances to this level as quickly as possible in order to ensure that the council remains financially resilient. Therefore, the MTFS includes allocation of £0.285m to return balances to the risk assessed level in 2024/25. This will be achieved by an additional drawdown from the Commercial Risk Reserve in 2024/25.

Earmarked Reserves

10. The Department for Levelling Up Housing and Communities (DLUHC) prescribe the following five options for the categorisation of earmarked reserves:

- Budget Stabilisation
- Planned future revenue and capital spending
- Specific risks
- Contractual Commitments
- Other

11. The following paragraphs set out the categorisation of the Earmarked Reserves established by the council and their purpose. The net reduction in Earmarked Reserves across the MTFS is £9.838m. A breakdown of the forecast movement on Earmarked Reserves is set out at the end of this Policy Statement.

12. Budget Stabilisation

- **Economic Impact Reserve**

The economic impact reserve was created to manage the impact of economic downturn. It is forecast to be zero at the end of 2023/24, with the balance utilised in full to manage the impact of inflationary pressures in year. There are no planned contributions to the reserve over the MTFS period.

- **Collection Fund**

This reserve is held to manage fluctuations in Business Rate income that the council receives and the timing of the receipt of government grant which is sometimes paid a year in advance.

13. Planned future revenue and capital spending

- **Grants and Contribution Reserve**

This reserve is used to carry forward ring fenced government grant funding for use in future years. Ring fenced grants should be used for a specified purpose as set out in the grant conditions. Unringfenced grants form part of general balances.

- **Car Parking Zones**

Under Section 55 of the Road Traffic Regulation Act 1984, local authorities are required to keep a separate account of their income from on-street charges and on and off street parking enforcement. If there is a deficit in year this must be met from the general fund, however, surpluses can be carried forward through a reserve. The Car Parking Zones reserve must be used in accordance with the provisions in the Act. Permitted expenditure includes the provisions and maintenance of off street parking, the provision / operation of public passenger transport services, highways or road improvement projects.

- **Sustainability Reserve**

This reserve is being utilised over the MTFS to support within the approved Watford's Environmental Strategy: Addressing the Climate and Ecological Emergency to create a better and more sustainable environment.

- **Renewal Recovery Fund**

The Renewal Recovery Fund was created during 2020/21 to help manage the impact of the COVID-19 pandemic. As agreed in the budget for 2023/24, the balance of this reserve is being used across the MTFS to offset the reduction in income from the leisure management contract.

- **Crematorium**
This reserve is held to fund repairs and maintenance for the crematorium or to manage the impact of reductions to the annual dividend payable by the Joint Committee. The council budgets for a £0.050m annual dividend.
- **Leisure Structured Maintenance**
This reserve is held to manage unforeseen maintenance that is not covered by the leisure management contract.
- **Local Development Framework**
This reserve was created to support the development and inspection of the council's Local Plan.
- **Multi-Storey Car Park Repair**
This reserve is set aside to fund major structural repairs in relation to multi storey car parks.
- **Housing Planning Delivery Grant**
This reserve is used to hold funding provided to improve planning outcomes and the delivery of housing.
- **Rent Deposit Guarantee Scheme**
This reserve is set aside to assist in providing homelessness accommodation. The reserve is forecast to be fully utilised in 2023/24.
- **Pension Funding**
This reserve is used to support the payment of the pension fund deficit. An annual drawdown of £0.200m is budgeted to part fund the past service cost lump sum payment to the pension fund. It is proposed to create a new Redundancy Reserve to support Service Redesign by transferring £1.000m from this reserve in 2023/24.

14. Specific risks

- **Commercial Risk Reserve (formerly Riverwell Project)**
This reserve is used to smooth the impact on the general fund of fluctuations in income from commercial activities and joint ventures.
- **Croxley Park Reserve (Revenue)**
On acquisition of the Croxley Business Park, through a finance lease arrangement, the council received a sinking fund of £24.000m to manage the timing of the recognition of rental receipts and smooth the impact on the council's General Fund. The forecast balance at 31 March 2024 is £11.357m. In addition, the council holds a capital contribution of £64.251m (forecast balance at 31 March 2024) to meet the costs of Planned Preventive Maintenance (PPM) and capital improvements which will be utilised over the life of the lease. The adequacy of these reserves is kept under review and reported to the council's Property Investment Board.
- **Housing Benefit Subsidy**
This reserve is held in the event that the Department for Work and Pensions claw back funds following the annual reconciliation process.
- **Redundancy Reserve (New Reserve)**
It is proposed to create a £1.000m redundancy reserve from the Pension Funding Reserve in 2023/24 to support Service Redesign across the MTFs. The reserve will be used to meet the cost of redundancy including pension strain costs, which are payable when employees are 55 years of age and over at the point of redundancy. Redundancy costs must be recognised in the financial period when the decision is made and not when an individual leaves the organisation. This means that redundancy costs are incurred before savings are achieved.

Revenue Earmarked Reserves and Corporate Reserves Forecast

Description	2023/24			2024/25		2025/26		2026/27		
	Balance at 1 April £m	Agreed Use of Reserves £m	Forecast Variations £m	Balance at 31 March £m	Planned Use of Reserves £m	Balance at 31 March £m	Planned Use of Reserves £m	Balance at 31 March £m	Planned Use of Reserves £m	Balance at 31 March £m
Earmarked Reserves										
Car Parking Zones	(0.331)	0.119		(0.212)	0.121	(0.091)	0.091	(0.000)	(0.009)	(0.009)
Collection Fund	(6.317)			(6.317)		(6.317)		(6.317)		(6.317)
Crematorium	(0.150)			(0.150)		(0.150)		(0.150)		(0.150)
Housing Benefit Subsidy	(1.606)			(1.606)		(1.606)		(1.606)		(1.606)
Housing Planning Delivery Grant	(0.266)			(0.266)		(0.266)		(0.266)		(0.266)
Leisure Structured Maintenance	(0.057)			(0.057)		(0.057)		(0.057)		(0.057)
Local Development Framework	(0.178)			(0.178)		(0.178)		(0.178)		(0.178)
Multi-Storey Car Park Repair	(0.181)			(0.181)		(0.181)		(0.181)		(0.181)
Pension Funding	(2.248)	0.600	1.000	(0.648)	0.200	(0.448)	0.200	(0.248)	0.200	(0.048)
Grants and Contribution Reserve	(1.177)	0.478		(0.699)		(0.699)		(0.699)		(0.699)
Rent Deposit Guarantee Scheme	(0.100)	0.100		0.000		0.000		0.000		0.000
Riverwell Project	(6.522)	0.228	0.598	(5.696)	0.355	(5.341)	0.236	(5.105)	1.170	(3.935)
Sustainability Reserve	(0.500)	0.143		(0.357)	0.038	(0.319)		(0.319)		(0.319)
Croxley Park General Reserve	(14.864)	0.000	3.507	(11.357)	5.257	(6.100)	2.303	(3.797)	(0.107)	(3.904)
Renewal Recovery Fund	(0.568)	0.500		(0.068)	0.068	0.000		0.000		0.000
Redundancy Reserve	0.000		(1.000)	(1.000)	0.000	(1.000)		(1.000)		(1.000)
Total Earmarked Reserves	(35.065)	2.168	4.105	(28.792)	6.039	(22.752)	2.830	(19.923)	1.254	(18.669)
Corporate Reserves										
Economic Impact Reserve	(0.990)		0.990	0.000		0.000		0.000		0.000
General Fund Working Balance	(2.000)	0.069	0.216	(1.715)	(0.285)	(2.000)		(2.000)		(2.000)
Total Corporate Reserves	(2.990)	0.069	1.206	(1.715)	(0.285)	(2.000)	0.000	(2.000)	0.000	(2.000)
Total Revenue Reserves	(38.055)	2.237	5.311	(30.507)	5.754	(24.752)	2.830	(21.923)	1.254	(20.669)