

Part A

Report to: Cabinet
Date of meeting: 20 January 2014
Report of: Finance Shared Services
Title: Financial Planning - Draft Revenue and Capital Estimates 2014-2018 and the Treasury Management Strategy 2014-17

1.0 SUMMARY

1.1 The purpose of this report is to enable the Cabinet to consider service level expenditure, funding and council tax levels for the medium term 2014/15 to 2017/18, including consideration of the use of reserves and balances. This budget is a component part of the 2014/15 Council Tax calculations.

1.2 The report sets out:

- the draft revenue estimates for the period 2014-18
- the draft capital programme for the period 2014-18
- the Treasury Management Strategy 2014-17

1.3 The Cabinet is recommended to agree the Council Tax Base to apply for 2014/15.

1.4 The report includes advice from the Director of Finance on the adequacy of general reserves and balances in the context of the four year planning horizon 2014-2018. (see paragraph 7.8)

2.0 RECOMMENDATIONS

That Cabinet

2.1 Resolves 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 2014/2015 is 30,112.10 as outlined in paragraph 7.5 and summarised at Appendix 7

2.2 Approves the estimate of surplus and deficit position on the Collection Fund.

2.3 Approves the 2014/15 savings of £754,970 as detailed at Appendix 1.

2.4 Approves the 2014/15 growth of £139,280 and as detailed at Appendix 2.

2.5 Approves the proposed increases in fees and charges as detailed at Appendix 4

2.6 Approves all the assumptions made within the Medium Term Financial Strategy at Appendix 5 which includes a council tax freeze for 2014/2015.

That Council be recommended to approve

- 2.7 The General Fund Budget Requirement for 2014/2015 of £14,313,080 (before use of grants and reserves) and as outlined at paragraph 7.1
- 2.8 The Capital Programme as set out at Appendix 10.
- 2.9 The financial risks and the level of reserves and balances (Appendices 8 & 9 refer).
- 2.10 The existing Local Council Tax Reduction Scheme to continue from 1 April 2014 (paragraph 7.6.4 refers)
- 2.11 The Treasury Management Strategy for 2014-2017 as set out in Appendix 11.
- 2.12 To delegate to the Director of Finance and Portfolio Holder the ability to amend the budget figures in accordance with decisions taken at the Cabinet meeting and any minor variations that may occur before the Council meeting on 29th January 2014.

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Report approved by Joanne Wagstaffe, Director of Finance.

FINANCIAL PLANNING – REVENUE SERVICES

3.0 INTRODUCTION

3.1 The preparation of the 2014/2015 budget has been completed against a backdrop of further cuts in Government funding to local authorities and increased expectation from stakeholders.

3.2 Officers have prepared a 'base budget' for 2014/15 which is shown as part of the high level forecasts in the 4 year Medium Term Financial Strategy 2014-18 (MTFS) shown at Appendix 5. The Base Estimates change during the year as a consequence of variations which are reported through the Finance Digest and considered by Budget Panel/Cabinet. This report has taken into account all variations to base estimates as at the Period 8 (end of November) Finance Digest.

The four -year medium-term base budget includes:

- Saving reductions as attached at Appendix 1.
- Growth additions as attached at Appendix 2.
- Estimates of fees and charges as attached at Appendix 4.
- The Government Grant announced in the provisional Local Government Finance Settlement on 18 December 2013 for the two years 2014/15 and 2015/16 at Appendix 6.
- A Council Tax Base of 30,112.10 for 2014/15. This represents an increase of 2.4% on the comparable figure for 2013/14.
- A zero council tax increase in 2014/15 and subsequent years (see paragraph 8 for details).

4.0 Savings

4.1 The 2013-14 Road Map process required £2m of further savings to be identified over three years. At the end of 2013/14 (first year) it is estimated that a total saving of £1.382k will be achieved which includes an annual average saving from outsourcing Waste, Street Cleansing and Parks of £594k. Heads of Service and Portfolio Holders have identified additional savings of £754k in 2014/15 and a further £170k in 2015/16 which will achieve the required reduction. **Appendix 1** details the savings which it is anticipated can be delivered in the period 2014/15 to 2017/18.

4.2 The 2014/15 and future years savings have been approved by the Leadership Team and are considered achievable without any detriment to service delivery.

4.3 At its meeting on 18 November 2013 the Joint Shared Services Committee agreed the Service Plans for Finance, ICT and Human Resources and Revenue and Benefits.

5.0 Growth

5.1 Wherever possible Officers have made every effort to cash limit expenditure budgets without affecting service delivery. However some growth is inevitable and **Appendix 2** details those bids for growth which are largely unavoidable and total £139k in 2014/2015 (and reducing thereafter). Officers are further examining the ICT budgetary provision and any changes will be reported in budget monitoring.

6.0 Fees and Charges

6.1 The income charging policy (which includes the concessions policy) is shown at **Appendix 3**.

6.2 The detailed schedule of the proposed fees & charges was presented to Budget Panel on 26th November 2013 who noted the report. Budget Panel recommended to Cabinet the increase in the cost of the single permit for those living in CPZ areas should be limited to £1, an increase of 4.56% from £22 to £23. The service estimates for fees and charges income shown at **Appendix 4** assumes an increase of £3 for the first permit.

7.0 Funding the Revenue Budget

7.1 The MTFs at **Appendix 5** indicates that the budget requirement for 2014/15 is £14,313,080

This will be funded from the following sources:

- Settlement Funding Assessment
- Specific Government Grants
- New Homes Bonus
- Council Tax
- Collection Fund Surplus
- Revenue Reserves

7.2 Local Government Finance Settlement

7.2.1 The Government Grant announced in the provisional Finance Settlement on 18 December 2013 for 2 years is detailed at **Appendix 6**. The respective amounts have been included in the MTFs.

7.3 New Homes Bonus

7.3.1 The New Homes Bonus top-slice has been reduced nationally by £100m for 2014/15 and 2015/16 (this is not new money, but will mean that RSG increases and the New Homes Bonus adjustment grant will fall by the same amount). It has been assumed that this funding stream will cease in 2017/18.

7.4 Setting the Council Tax

7.4.1 The Council needs to set a budget that gives an acceptable level of council tax, and breaks even in the medium to long term using the balances it has at its disposal.

The Council tax is calculated as follows:-

$$\frac{\text{Council Tax Requirement}}{\text{Council Tax Base}} = \text{Band D Tax}$$

The council tax requirement is the Council's net revenue expenditure, after crediting government grants, less the use of any balances in the year (i.e. any deficit in the year).

7.5 **Council Tax Base 2014/2015**

7.5.1 The analysis of dwellings in **Appendix 7** for the 2014/15 Council Tax Base results in a figure of 30,112.10 after allowing for the Council Tax Reduction Scheme and a collection rate of 97% (same as 2013/14).

7.6 **Council Tax for 2014/2015**

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

- Council Tax for 2013/2014
- net expenditure for 2014/2015
- the Local Council Tax Reduction Scheme
- use of revenue reserves
- Government Grant
- the Council Tax Base

7.6.2 The Council currently receives grants for freezing council tax in 2011/12, 2012/13 and 2013/14. An announcement on funding a council tax freeze funding for 2014/15 is awaited.

7.6.3 The Localism Act 2011 abolished capping in England and instead introduced a power for local electorates to approve or veto excessive council tax rises Any authority setting a council tax increase which exceeds principles endorsed by the House of Commons (i.e. if it is “excessive”) will be required to hold a council tax referendum. The result of a council tax referendum will be binding. The Secretary of State has yet to announce the rules for 2014/15.

7.6.4 **Local Council Tax Reduction Scheme**

The Council at its meeting on 30 January 2013 agreed a Local Council Tax Reduction Scheme to apply from 1 April 2013. The new scheme replaced Council Tax Benefit and was introduced following consultation with the public and the major Precepting authorities. There are no proposals to change the current scheme for 2014/15. Both Hertfordshire County Council and the Police & Crime Commissioner have been informed of the position. This decision means there will be no change or new impact on applicants from 1st April 2014.

7.7 **Collection Fund**

7.7.1 The Collection Fund is a statutory requirement to account separately for Council Tax and following localisation of business rates in April 2013, Non Domestic Rates (NDR). The Fund records all transactions such as the yield, exemptions, discounts, provisions for bad debts, payments to major preceptors to Central Government and takes into account collection rates.

7.7.2 Until 2012/13, all business rates were paid to a national pool and then distributed to local government using grant formulae. From April 2013, the Council retains fifty percent of NDR but where this is above the DCLG baseline, the excess is paid to central government. Any growth is also subject to sharing and a levy is applied to the portion that would have remained as the local share. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation and reliefs.

7.7.3 The Council Tax setting process requires an estimate of the surplus or deficit at 31 March 2014 on Council Tax and NDR. The balances are distributed to the Council as the Billing Authority, the major preceptors and Central Government. The balance on Collection Fund (Council Tax) at 1 April 2013 was a £189k surplus (£31k for Watford as the surplus is shared with major preceptors). Initial indications show no negative impact for 2013/14. The Director of Finance will report the estimated position to the Cabinet meeting. Any surplus or deficit is a one-off adjustment. The Non Domestic Rates estimated surplus or deficit at 31 March 2014 (a new element this year) will also follow.

The estimated position at 31 March 2014 will be reported to Cabinet.

	Council Tax		NDR		Total
	%	£	%	£	£
Watford Borough Council		TBA			TBA
Hertfordshire County Council					
Police & Crime Commissioner					
Central Government					
Total		TBA			TBA

7.8 Balances and Reserves

7.8.1 Under section 25 of the Local Government Act 2003 there is a duty on the Chief Finance Officer to report on the robustness of the estimates and the adequacy of reserves when considering the budget requirement and for Members to have regard to this advice. The Director of Finance confirms the estimates have been correctly calculated under the assumptions used and that balances and reserves are adequate.

7.8.2 The General Fund balance is a general reserve providing a working balance to cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and provide a contingency to meet unexpected events and emergencies.

7.8.3 The external auditors, as part of their wider responsibilities, consider whether the Council has adequate arrangements with regard to balances and reserves. In assessing the adequacy of the level of the working balance the Council's external auditor (Grant Thornton) has commented they would not wish to see the General Fund Working Balance reduced below its current level of £1.35m.

7.8.4 The Council has set aside specific amounts as reserves for future policy purposes and to cover contingencies. Reserves have been created by appropriating amounts out of the General Fund balance to meet known or predicted requirements. Cabinet has previously agreed that the Economic Impact Reserve would, in the first instance, be used to meet any budget shortfalls. The full schedule of reserves and the anticipated position as at 1st April 2014 is attached at **Appendix 8**. An explanation as to intended use is shown in **Appendix 8a**.

7.8.5 It is necessary to distinguish between those reserves that are earmarked for specific expenditures, those which support the capital programme and those upon which restrictions exist. For example, the Spend to Save reserve can meet expenditure to secure future savings whilst the Car Parking Zones reserve has statutory uses.

7.8.6 An analysis of Key Risks that could require a further drawdown from reserves has been detailed at **Appendix 9** and should be considered before making any decisions upon the use of reserves.

8.0 CAPITAL PROGRAMME 2014-2018

- 8.1 The current capital programme was approved by Council at its meeting on 30th January 2013. 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.
- 8.2 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.
- 8.3 These new schemes, which total £158k, include costs of replacement servers, pop up toilets refurbishment, museum CCTV including intruder alarm system and town centre CCTV camera replacements
- 8.4 Some schemes have been rephased in 2013/14 where the expenditure is expected to take place in 2014/15. These include the Cardiff Road Health Campus (£1.45m), the contribution to the Croxley Rail Link (£3.12m), Allotment Upgrades including Relocation (1.2m) and the Hurling Club Relocation (£0.8m).
- 8.5 The capital programme includes capital schemes of £15.6m in 2013/14, £15.2m in 2014/15, £3.6m in 2015/16, £1.6m in 2016/17 and £1.5m in 2017/18. The larger capital schemes include the estimated provision for the Cardiff Road Health Campus (£6.7m), Cultural Quarter (£4.2m), contribution to the Croxley Rail Link (£3.1m), New Market (£2.6m), Allotment Upgrades and Relocation (2.2m), Building Investment Programme (£1.7m) and Disabled Facility Grants (£1.6m). The actual expenditure required for these larger schemes is under constant review to secure best value.
- 8.6 The Capital Programme also includes an assessment of likely available resources to finance all capital expenditure and includes assumptions regarding new capital receipts. Capital receipts have been estimated at £3m in 2014/15, £2m in 2015/16, £1.3m in 2016/17 and £2m in 2017/18. The receipts in 2016/17 and 2017/18 relate to the first dividends from the Cardiff Road Health Campus Project.
- 8.7 The Council has been prudent in the past by building up Reserves in order to fund future capital projects. The Council now intends to utilise some of these Reserves in order to reduce the need for any future external funding requirements. To fund the capital programme during the period 2013 to 2018 the Council intends to use the Capital Fund Reserve (£1.8m), the Development Sites Decontamination Reserve (£1.3m), the New Homes Bonus Reserve (£1.6m) and the Weekly Collection Support Grant Reserve (£1.5m). In addition, the Council has also funded from Government Grants, Other Contributions and S106 Contributions.
- 8.8 The last two tables in **Appendix 10** indicate that the revised capital programme once completed in 2017/18 will leave a surplus of £4.56m for general fund schemes (which will be monitored as the programme develops) and a surplus of £1.56m for Section 106 projects.
- 8.9 Based on the revised capital programme, the Council has sufficient capital receipts, reserves, grants and contributions to fund the capital programme in the medium term (up until 2017/18), and so external borrowing will not be required. However, if either capital expenditure increases or forecasted capital receipts fall substantially then external borrowing may be required. At this stage, there is no forecast to borrow from the PWLB, however the Council has approval to borrow if required.

9.0 TREASURY MANAGEMENT STRATEGY 2014-17

9.1 The Treasury Management Strategy for 2014-17 is attached at **Appendix 11**. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's medium risk appetite, providing adequate liquidity initially before considering investment returns. This report covers two main areas:

Capital Issues

- The capital plans 2014-17;
- The Minimum Revenue Provision strategy and policy statement;
- The long and short term borrowing requirement.

Treasury Management Issues

- The current portfolio position;
- Treasury indicators: limits to borrowing activity;
- Prospects for interest rates;
- The borrowing strategy;
- Annual investment strategy;
- Reporting requirements;
- Policy on use of external service providers;
- Bank tender process; and
- Member and officer training.

9.2 The Treasury Management Policy Statement, details the policies, practices, objectives and approaches to risk management of its treasury management activities and has previously been adopted by the Audit Committee. There are no changes to the Treasury Management Policy Statement to report and the treasury service confirm that they are complying with all aspects of the Treasury Policy Statement and will continue to do so in future years.

9.3 It should be noted however that the criteria for placing investments have been reviewed to take into account general credit rating adjustments that have occurred over the past twelve months.

9.4 It is necessary for Council to agree the degree of risk to which it is prepared to expose the investment portfolio. The Director of Finance would define this as follows:

Low Risk—limited to use of the Debt Management Office facility and other UK sovereign financial instruments; major clearing banks possessing high credit rating (or substantially owned by the UK Government); triple AAA money market funds; local authorities.

Medium Risk—the use of Building Societies with an asset base above £5,000m as this sector is generally not rated by the Credit Rating Agencies;

High Risk—low rated clearing banks; banks based outside the UK (this is a generalisation as many German / Dutch / Scandinavian and French banks would almost certainly be deemed too big to fail); building societies having a small asset base.

- 9.5 By the above 'crude' criteria, Watford might be considered to have a medium appetite for risk the Audit Committee and Council will need to feel comfortable with this approach.
- 9.6 The Director of Finance comments that the Treasury Management Strategy has no direct financial implications. **Appendix 11** sets parameters within which officers should operate and could result in indirect financial implications which are not possible to evaluate at this time.
- 9.7 It recommends the ability to borrow up to a maximum of £10m and reflects anticipated borrowing of £6m from the Herts Local Enterprise Partnership Growing Places Fund with further potential funding for other re-development projects. In all cases there will be an expectation that a financial return will accrue to enable these loans to be repaid within a relatively short period of time. **Appendix 11** details the criteria for determining to whom the Council should be lending its money and has been reviewed in the light of the general credit rating downgrades that have occurred over the past twelve months.
- 9.8 **Annex A to Appendix 11** reports upon the Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management guidance.

10.0 CONSULTATION

- 10.1 Budget Panel has been fully engaged throughout this process and feedback from its meeting on 15th January will be circulated prior to the Cabinet meeting.
- 10.2 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.

11.0 IMPLICATIONS

11.1 Financial Implications

These are covered within the report.

11.2 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 2014/15 budget by 11th March 2014. The Local Council Tax Reduction Scheme has to be approved by Council by 31 January each year for the next financial year.

It is a statutory requirement that the Treasury Management Strategy and Treasury Management Practices are reviewed annually. The report meets the requirement of CIPFA's Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

11.3 **Equalities**

11.3.1 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.

11.3.2 This report provides an over view of Budget proposals and equalities issues will need to be specifically considered before changes to existing service levels are introduced.

11.4 **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 2014/2015 to Council	2	3	6
That Cabinet does not agree a medium term financial strategy to address future government grant reductions	2	3	6
That Cabinet does not recommend a council tax to apply for 2014/2015	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
That the Council will exceed its borrowing parameters	1	3	3
That the Council will be unable to service its annual borrowing costs	1	3	3
That the Council will be unable to repay any loans at maturity date	1	4	4
Investment placed with a non approved body	1	3	3
Investment with a counterparty that subsequently defaults	1	4	4

11.5 **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.

11.6 **Accommodation**

There are no clearly defined proposals that will affect current accommodation standards or service delivery.

11.7 **Community Safety**

All proposals relating to 2014/2015 Revenue and Capital budgets have taken into account the effect upon community safety.

11.8 **Sustainability**

The Council has established policies in the past to support sustainability such as the purchase of green energy through its procurement policies.

Appendices

Appendix 1	Revenue Savings 2014-2018
Appendix 2	Revenue Growth 2014-2018
Appendix 3	Income Charging Policy for Fees & Charges
Appendix 4	Fees and Charges Proposals for 2014-2015
Appendix 5	Medium Term Financial Strategy 2014-2018
Appendix 6	Summary of Local Government Finance Settlement 2014-2015
Appendix 7	Council Tax Base 2013-2014
Appendix 8	Schedule of Reserves
Appendix 8a	Notes to the Reserves
Appendix 9	Key Risks
Appendix 10	Draft Capital Programme 2013-2018
Appendix 11	Treasury management Policy