



BUDGET PANEL

Agenda Item 5 Updated documents

Wednesday, 11th January, 2012

7.00 pm

Town Hall, Watford

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CONTACT

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COMMITTEE MEMBERSHIP

Councillor J Dhindsa (Chair)

Councillor T Poole (Vice-Chair)

Councillors S Counter, G Derbyshire, S Greenslade, R Martins, M Meerabux, S Rackett and M Watkin

AGENDA

PART A - OPEN TO THE PUBLIC

5. DRAFT REVENUE AND CAPITAL ESTIMATES FOR 2012/2015 (Pages 1 - 24)

Report of the Head of Strategic Finance

This item includes the report and appendices to be considered by Cabinet on 16 January 2012 relating to revenue and capital estimates.

Agenda Item 5

Updated report

Part A

Report to: Cabinet
Date of meeting: 16 January 2012
Report of: Head of Strategic Finance
Title: Draft Revenue and Capital Estimates 2012 / 2015

1.0 SUMMARY

1.1 This report sets out:

- the draft revenue estimates for the period 2012/2015
- the draft capital programme 2011/2015

as the basis for Cabinet's recommendations to Council

1.2 The Cabinet is recommended to agree the Council Tax Base to apply for 2012/2013

1.3 The Cabinet will need to consider recommended levels of expenditure and funding for 2012/2013 and recommend the levels of council tax to apply for 2012/2013

1.4 The Cabinet will also need to consider a medium term financial strategy to meet the forecast reductions in government grant in the period 2012/2016.

1.5 The report includes advice from the Head of Strategic Finance on the adequacy of general reserves and balances in the context of the four year planning horizon 2012/2016

2.0 RECOMMENDATIONS

That Cabinet

2.1 Resolves that, in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992, the amount calculated by Watford Borough Council as its Council Tax Base for the year 2012/2013 is 33,055 as outlined in paragraph 12.3.

2.2 Note there will be no surplus or deficit on the Collection Fund as outlined in paragraph 12.4.2.

2.3 Approves the Base Budgets at Appendix 2

- 2.4 Approves the shortfall in service prioritisation savings of £165,000 as detailed at Appendix 3.
- 2.5 Approves the growth of £319,700 to be incorporated into Base Budgets and as detailed at Appendix 4.
- 2.6 Notes the shortfall in income from fees and charges of £271,920 to be incorporated into Base Budgets and as detailed at Appendix 5 and in doing so, to approves the proposed increases in fees and charges as detailed at Appendix 12.
- 2.7 Approves the additional savings of £333,350 to be incorporated into Base Budgets and as detailed at Appendix 6.
- 2.8 Approves all the assumptions made within the MTFs at Appendix 7B (and as referred at Section 10 of the report) and which includes a council tax freeze for 2012/2013.

That Council be recommended to approve

- 2.9 The General Fund Budget Requirement for 2012/2013 of £14,897,050 (before use of grants and reserves) and as outlined at paragraph 10.3.
- 2.10 The Capital Programme as set out at Appendix 11

And in doing so

- 2.11 To have regard to the Head of Strategic Finance's assessment of financial risks and the level of reserves, balances (Section 11 and Appendices 8 & 9 refer). To also delegate to the Head of Strategic Finance and Portfolio Holder the ability to amend these figures in accordance with decisions taken at the Cabinet meeting and any minor variations that may occur before the Council meeting on 25th January.

Contact Officer:

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3.0 INTRODUCTION

3.1 The preparation and finalisation of the Budget for 2012/2013 has been completed against a background of unprecedented reductions in Central Government funding to local authorities. This has been exacerbated by extreme financial pressures both on the business community and household income generally.

3.2 The purpose of this report to Cabinet is to provide all relevant information to enable final decisions to be taken and recommendations to be made to Council and Functions Committee regarding expenditure and council tax levels for 2012/2013 and in particular:

- recommended expenditure levels for the period 2012/2015
- consideration regarding the use of reserves and balances
- future levels of council tax
- future strategies to meet the exceptionally stringent public expenditure reductions

4.0 Central Government Provisional Revenue Support (Formula) Grant Settlement

4.1 The Secretary of State for Communities and Local Government announced on 8th December the provisional Settlement for 2012/2013 and confirmed the figures previously notified to all councils on 7th February 2011.

4.2 In essence the settlement for Watford has reduced RSG Formula grant from £6.051m in 2011/2012 to £5.214m in 2012/2013 and reflects a 35% reduction in government funding when compared to 2010/2011. For the period 2013/2015 no firm figures have been provided by government due to the fact that a new scheme of financing local authorities—the Business Rates Retention scheme will come into operation.

4.3 A summary of the draft settlement (as it affects WBC) has been detailed at **Appendix 1**.

4.4 A statutory consultation period has been provided within the draft settlement and which ends on 16th January 2012. The Mayor, with support from Watford's MP, made strenuous representations 12 months ago and, along with every other authority where representations had been made, was unsuccessful in changing the Settlement. The figure now notified is consistent with the preliminary notification and it is suggested that further representation would be unproductive.

4.5 The effects of the draft settlement have now been reflected within a revised Medium Term Financial Strategy and which is covered at Section 10 of this report.

5.0 Base Estimates 2011/2015

- 5.1 The Council has an established process whereby the vast majority of operational budgets remain unchanged year on year (apart from where unavoidable inflation needs to be built in). This does not prevent Heads of Service from identifying reductions to budget but is very much their responsibility in consultation with their Portfolio Holder.
- 5.2 This process was reviewed during 2010 through a comprehensive Service Prioritisation exercise which examined current service/ staffing/ efficiency levels and identified circa £3m of net expenditure reductions over a three year period. These reductions were then built into base estimates for 2011/2014.
- 5.3 During the course of 2011/2012 variations to the base estimates are reported through the Finance Digest / separate reports which are then considered by Budget Panel / Cabinet. Should approval be obtained then the base estimates will be adjusted accordingly. In that respect this report does not cover in any detail all those variations reported through the Finance Digest as the picture is constantly changing. The latest position statement is the end of November (Period 8) Finance Digest which was circulated to all members of the Council on 23rd December. This indicated the need to draw £1,070k from reserves to meet forecast net expenditures in 2011/2012. The affect this has had on the Council's Reserves is discussed at Section 11 (and Appendices 8 & 8A) later in the report.
- 5.4 Attached at **Appendix 2** is a summary of the base estimates which shows the original base budget for 2011/2012 which was approved by Council on 21st February 2011. The summary then shows the Base Budgets for 2012/2013 to 2014/2015 which have been amended to incorporate variations approved during 2011/2012 and provision for pay awards and price inflation where appropriate. It must be emphasised that these base estimates are reflective of council decisions actually taken and do include the ongoing effect of all variations identified up to the end of November (Period 8 Finance Digest).
- 5.5 The Cabinet is asked to approve the base budgets at Appendix 2 but to note that the figures are before consideration of 'variations to base' which have yet to be considered by a formal decision taking body and which are covered within subsequent sections of this report.

6.0 Service Prioritisation Process (SPP) and Council Roadmap

- 6.1 Progress in achieving SPP savings has been reported to Budget Panel on 25th October and Cabinet on 7th November 2011. That report indicated that £1.567m of efficiencies would be achieved in 2011/2012 with a consequent shortfall in 2011/2012 of £239k. Part of this shortfall was due to delays in implementation and the base estimates and MTFs have only reflected the ongoing shortfall into future years (£154k). The report also provided a full analysis of efficiencies anticipated to be achieved in 2012/2014 and totalling £1.171m. A review has been undertaken into the probability of Year 2 & 3 savings being achieved and it is now anticipated that a shortfall of £165k will now occur and detail is attached at **Appendix 3**. This shortfall is reflected within the Growth analysis at Appendix 4 as it requires specific approval.

- 6.2 Budget Panel on 29th November also received a second report upon the Corporate Process Improvement Programme which indicated £150k of efficiency savings through smarter working had been identified. These savings are in addition to those within the SPP and have helped to meet the shortfall referred to at paragraph 6.1. These additional savings have been reflected within the Savings Schedule at Appendix 6.
- 6.3 Cabinet on 6th June and Budget Panel on 29th November considered a report upon 'Future Council: Roadmap' in which a further saving of £2m could be achieved in the three year period April 2013 to March 2016. These efficiencies to be achieved through a combination of service redesign, channel shift, market testing and reviewing corporate and shared services costs. This target saving has been reflected within the MTFs (Appendices 7A & 7B) albeit with a £350k (17.5%) contingency for non achievement of the full target.
- 6.4 Cabinet is requested to approve the shortfall in Service Prioritisation savings of £165k as detailed at Appendix 3.

7.0 Growth Additions to Base Budgets

- 7.1 During a period of severe expenditure reductions every effort should be made to reduce growth in base budgets to an absolute minimum. **Appendix 4** details those bids for growth which are deemed unavoidable. The majority of the growth items relate to service priority savings not achieved (and as referred to in the previous section of this report).
- 7.2 Some supplementary notes about these growth bids include:
- postage £6.4k this is a statutory requirement whereby every four years an authority has to contact all recipients of 'postal votes' to validate their entitlement.
 - property-additional temporary support relates to making full use of the new property software—Atrium, and requires some up front resource.
 - tree works relates to the need to record the state of our estate and relates to Health and Safety.
 - shared service growth relates to a one year delay in realising savings from the current scanning processes within the Revenues and Benefits Division.
 - voice automated telephony is up front costs prior to delivering ongoing savings.
- 7.3 The total of additional growth in 2012/2013 is £319,700 (and reduces by £94,700 and a further £25,000 in 2013/2014 & 2014/2015). Cabinet is asked to approve this growth so that it may be incorporated within base budgets.

8.0 Fees and Charges

- 8.1 Any proposals for increases to fees and charges in 2012/2013 need to consider the following:
- what will be the extent of increases in costs that will impact upon the service under review. For example, the trade refuse service will be affected by higher

disposal costs levied by HCC as well as increased fuel costs in operating refuse freighters.

- is there evidence that customer resistance is affecting current volumes of take up and further fee increases will be counterproductive. This is particularly relevant at the present time where household income has reduced in real terms.
- how do our current charges compare with alternative service providers or neighbouring councils.
- when was a particular charge last increased. For example, parking permits.

8.2 Heads of Service have considered all of these factors and their recommendations are reflected within the summarised Schedule of Fees and Charges at **Appendix 5** which shows a reduced level of income of £271,920 when compared to the base estimates for 2011/2012.

8.3 The major variations include:

- community centre income is down as a number of centres have been transferred out of council direct control.
- housing income is up largely due to additional temporary properties and increased occupancy.
- recycling income is down due to price/ falling volumes. These figures do include a 5% increase in trade refuse charges which was endorsed by Budget Panel.
- license income is up but the charges are largely governed by statute.
- parking income is up due to a recommended increase in permit charges
- development and building control income has fallen sharply and is due to the depressed state of the economy.
- Watford Market income is down largely due to a reduction in stallholders (but also due to a small reduction in charges as the stallholders will now have to pay business rates (legislative change). It is anticipated that many traders will be able to claim small business rate relief and this will be pursued through the Market Steering Group.

8.4 The scheme of subsidised/ concessionary support to those members of the community in receipt of income support is attached at **Appendix 5B** and reflects the decisions taken by Cabinet in January 2011).

8.5 The detailed schedule of proposed fee increases is attached at **Appendix 12** at the end of this report and requires Cabinet approval. Subject to such approval being received, then the base budgets will incorporate the £271,920 shortfall in income detailed at Appendix 5A.

9.0 Savings Reductions to Base Budgets

9.1 In addition to those savings identified through the Service Prioritisation and Road Map processes, all Heads of Service have been charged with identifying further efficiency savings. **Appendix 6** details those additional savings for the period 2012/2015 and totals £333,350 reductions in 2012/2013 (with a further £37,170 and an additional £2,250 in 2013/2014 & 2014/2015 respectively). This savings schedule has been considered by the Leadership Team and is considered achievable without any detriment to service delivery.

9.2 Cabinet are requested to consider (and approve) all proposed savings at Appendix 6 so that they can be incorporated within Base Budgets.

10.0 **Medium Term Financial Strategy (MTFS) 2011/2016**

10.1 The MTFS was last reported to Cabinet on 25th July and Budget Panel on 20th September 2011 and has now been updated to take into account all relevant factors. The MTFS actually covers a four year period whereas detailed estimates at Appendix 2 only covers a three year period. It is important however that both sets of figures are in total accord.

10.2 The MTFS at **Appendix 7A** mirrors the Base Budgets at Appendix 2 and before the 'variations to base' discussed within Sections 6 to 9 of this report. For 2011/2012 the Original Budget for 2011/2012 (Appendix 2) was £14,581,090 and this has been increased to £14,638,930 within the MTFS to reflect the variations to expenditure and funding that has occurred during 2011/2012 (up to and including the ongoing effects of variations reported within the Period 8 Finance Digest). The purpose of showing Appendix 7A is as a reconciliation item.

10.3 The MTFS at **Appendix 7B** incorporates growth, fees and charges shortfalls, and savings. And should be considered to be the most up to date position statement. It indicates net expenditure in 2012/2013 of £14,897,050. This includes major variations such as a projected shortfall of £698k in commercial rents due to the national economic downturn; a 1% provision for pay awards (which has been repeated in 2013/2014); and a general provision for price inflation which can be drawn down during the year as necessary.

10.4 Appendix 7B also indicates how this net expenditure will be funded and includes an assumption that the council tax will again be frozen in 2012/2013. Should Council recommend such a freeze then a one off grant from Central Government of £204,688 would be received (this has been explained more fully within Appendix 1). Cabinet should note that the MTFS at Appendix 7B also assumes that the funding from the New Homes Bonus in 2012/2013 (£1,516k) will be used to support the revenue budget for 2012/2013. In that respect, the Council was awarded £420k of NHB in 2011/2012 but all authorities were notified of their allocations after they had set their budgets. This £420k does not therefore appear within the 2011/2012 Original Budget (but has been reflected within the Reserves section of this report). More detail concerning the NHB has been provided within Appendix 1 and the strategy for using the NHB in this way is discussed below.

10.5 The New Homes Bonus is a reward for 'past achievement'. Watford has provided a significant number of new and affordable homes and this in itself places more pressure on the delivery of local services (at a time when councils are being asked to make stringent cuts in services). The NHB is not ring fenced for any particular purpose but there is an expectation that the wider community will be consulted and that regeneration and continued affordable housing will be sustained.

10.6 In this respect, Watford already has a good record of substantial funding from its own resources and includes the Health Campus project which has provision for many additional residential units; for the Croxley Rail Link which provides a major redevelopment opportunity; for Charter Place which is seeking to enhance the current retail offer within the Town; and for the Cultural Quarter (including a £6m

refit of the Colosseum) which is seeking to fully engage with the wider community. Further, the Council Capital Programme includes circa £3.7m for housing related facilities such as affordable housing and disabled facilities grants. All these initiatives involve a substantial amount of funding (as well as past consultation with the community) and it would not be unreasonable to earmark the NHB to be used as a provision to support the continued delivery of high quality services.

- 10.7 Appendix 1 indicated that the NHB is to continue for a further 4 year period but the MTFS has assumed the additional £1,116k will only be received in 2012/2013 and that the base level for 2011/2012 of £420k will continue throughout the MTFS period. The reasons for this include:
- it would be unwise to plan the MTFS on the basis that additional grant of this magnitude will continue in future years.
 - The local government finance system is facing a major upheaval in April 2013 with the introduction of a Business Rate Retention Scheme which has previously been reported to Budget Panel and includes a great risk that funding may actually be diverted from the more prosperous South East to the North and West of the Country.
 - There has to be considerable risks inherent within Watford's Budget due to the significant financial contribution rental income from the commercial sector makes to overall funding. Whilst the budget for 2012/2013 has made some allowance for a reduction in commercial rent income, the reality may be far worse. The Harlequin Centre, for example, may suffer further retail failures with both HMV and Millets coming under some pressure.
 - Finally there are major changes planned to the funding of welfare payments which are due to be implemented during 2013/2014. For example there is a proposal that council tax benefit subsidy from Central Government will reduce by 10% with this burden falling to local authorities to recover from the recipients of such 'largesse'. For Watford that equates to circa £750k but how realistic will it be to assume this loss can be transferred to the client base?
- 10.8 For all of the above reasons it is strongly recommended that the continuance of NHB of £1,516k in 2013/2014 and future years should not be assumed. The MTFS has, however, included a base level of grant of £420k which will continue throughout the four year period.
- 10.9 The MTFS covers not just 2012/2013 but also the three following years and represents best practice in properly planning for future service and funding availability. Failure to do this would probably result in knee jerk emergency actions. So what is the MTFS illustrating?
For 2012/2013 it is showing, due to the New Homes Bonus, that the Council is able to set aside £350,788 into reserves. This will help to sustain the Council's overall level of reserves following the need to draw down £1,070k of reserves in 2011/2012 to finance underachievement of income and additional expenditure which has been fully covered within the period 8 Finance Digest circulated to all Members of the Council before the Xmas recess.
- 10.10 For 2013/2014 it indicates the use of £506,440 of reserves with a further £875,213 being utilised in 2014/2015. For 2015/2016 (the final year of the MTFS) it indicates a drawdown from reserves of £50,550 which essentially indicates a sustainable budget will have been achieved.
- 10.11 The MTFS indicates that Service Prioritisation efficiencies of circa £2.68m will be achieved (against a target of £3m); that the Roadmap proposals are assumed to deliver £1.65m (against a target of £2m); that council tax will again be frozen

(following its freezing in 2011/2012 and 1.4% reduction in 2010/2011); The use of reserves is discussed within the next section of this report.

- 10.12 Cabinet is requested to approve all the assumptions made within the MTFs at Appendix 7B and includes the recommended use of the New Homes Bonus and the freezing of council tax in 2012/2013.

11.0 Use of Reserves

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

- 11.2 The Council has accrued a reasonable level of reserves due to its prudent financial management. The full schedule of these reserves is attached at **Appendix 8A** with an explanation as to their intended use at **Appendix 8B** and is the anticipated position as at 1st April 2012 after forecast variances have been funded in 2011/2012. It is, however, necessary to distinguish between those reserves that are earmarked for specific expenditures in the future and those general reserves which are available to support annual revenue budgets.

- 11.3 Specific earmarked reserves include where a third party has contributed to that reserve such as the Charter Place Tenants reserve; or where a reserve has a statutory limitation on its use such as the Car Parking Zones reserve; or where it is good practice to build up a reserve for a specific purpose such as the Leisure Structural Maintenance Reserve which has been established to enable future structural maintenance to the two leisure centres to take place.

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

- 11.5 General reserves also need to be maintained to meet projected variations to revenue budgets. For example, the current projection of net expenditure for 2011/2012 is forecasting a £1,070k overspend due in the main to the impact of the recession and this has been reflected within the Reserves Schedule at Appendix 8A.

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

Factors Taken Into Account in Assessing an Appropriate Level of Reserves

- 11.7 It is always a difficult question regarding what are the correct level of reserves. There are some heads of expenditure which are quite volatile such as investment interest, housing/ council tax benefit, commercial rents, and future pensions liabilities. Each of these could feasibly vary significantly (and are largely outside the Council's control). It should be realised, of course, that the authority would be

exceptionally unlucky to suffer adverse consequences from all major potential sources of adverse variation in the course of a financial year. An analysis of 'Key Risks' has been detailed at **Appendix 9** and which should be considered before making any decisions upon the use of reserves.

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

11.9 By reference to Appendix 8 the available level of general reserves is £5,001k and, should Cabinet accept the need to retain £2,250k of reserves then it would indicate a residual balance of £2,751k is available to support revenue budgets. The MTFs at Appendix 7B indicates for the years 2012/2016 that £1,081k would be committed. There are however a number of key risks during this period that could require a further drawdown from reserves.

12.0 Funding of the Revenue Budget

12.1 The MTFs at Appendix 7B indicated that, for 2012/2013, net expenditure is estimated to be £14,897, 050 and this will need to be funded from the following sources:

- Government Grant (Revenue Support Formula Grant)
- Specific Government Grant (Freeze Grant/ New Homes Bonus)
- Council Tax
- Collection Fund Surplus
- Use of Reserves
- General Fund Working Balance

12.2 Government Grant

This was discussed in detail at section 4 of the report earlier.

12.3 Council Tax Base 2012/2013

The current analysis of dwellings for the 2012/13 Council Tax Base results in a figure of 33,903 (Band D equivalent) and is based upon a 100% collection level (**Appendix 10**). It is anticipated that 2012/2013 will continue to be a difficult year for many households and an actual collection rate of 97.5% has been assumed in determining the council tax to apply next year and the Council Tax base will therefore be set at 33,055 (compared to 32,771 for 2011/2012).

12.4 Collection Fund

12.4.1 The authority is required to review the balance on the Collection Fund annually and make an adjustment to the Council Tax for any surplus or deficit. Issues to be taken into account include collection levels and the degree to which council tax arrears will have to be written off. It is hoped that the 97.5% collection level referred to above will be realistic. With regard to arrears write offs, the level of council tax arrears at 31st March 2011 was £2,803,358 and dates back over a 10

year period. The majority of these arrears relate to 2010/2011 (£1,161,084) and for which there is a good chance that payments in full will be made. "Arrangements" also exist for other arrears to be reduced over a period of time. During 2011/2012 a review continues to be made to ascertain how much of the cumulative arrears will need to be written off (where recovery processes have been fully exhausted) and periodic reports will be made to Cabinet when appropriate.

12.4.2 The Collection Fund at 31st March 2011 had a provision for bad debts of £1,800,000 and which it is anticipated will be sufficient to meet any ultimate write offs. In the light of these figures it is recommended that no deficit or surplus be declared for the Collection Fund and that the three 'preceptors' on the Collection Fund—Watford / HCC / HPA be notified accordingly.

12.5 Use of Reserves

This has been covered at section 11 of the report.

12.6 General Fund Working Balance

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

13.0 Recommending the Council Tax for 2011/2012

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

- current level of council tax for 2011/2012
- agreed level of expenditure for 2012/2013
- use of reserves
- level of Government Grant
- the Council Tax Base

13.2 In addition to these considerations the Mayor's strategic objective is that council tax rises should be below inflation. The relevant inflation rate, the RPI for September 2011 was 5.6%. However, Central Government has made available a specific grant to all authorities that freeze their levels of council tax in 2012/2013 equivalent to a 2.5% increase in council tax. For Watford this results in a potential increase in grant of £205k but is available for one year only. The withdrawal of this grant in 2013/2014 would therefore result in a £205k shortfall where expenditure would exceed available income.

13.3 The main reason any authority would not take advantage of this support is that inflation is currently in excess of 5% and this 'freeze' grant only covers 50% of potential increases in costs. If an authority wished to produce a sustainable budget without recourse to more reductions in expenditure then it may well decide to forego this one off grant and set an increased level of council tax. The Secretary of State for Communities and Local Government has however announced that any authority wishing to increase council tax in excess of 3.5% will need to carry out a referendum to seek agreement of its community. There would therefore only be a 1% improved margin if an authority chose not to freeze in 2012/2013. The MTFS at Appendix 7B has assumed the Council would wish to freeze council tax for 2012/2013 therefore.

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

14.0 Future Strategy to Meet Reductions in Government Funding

14.1 The Service Prioritisation process instigated last year has proved successful and is due to deliver circa £2.68m of efficiencies and has helped to meet the front loaded nature of the reductions in government grant referred to at Section 4 of this report. The continuing depressed state of the national economy will result in further savings needing to be identified in order to produce a sustainable budget where annual expenditure and income are in balance without the use of reserves.

14.2 The Council has already started to prepare for identifying these additional savings through its "Roadmap" proposals which were first considered by Cabinet on 6th June 2011 and endorsed by the Budget Panel on 29th November. This Road Map sets a target of a further £2m of savings through the period 2013/2016 and is based upon four key transformers:

- service redesign: integrating services to produce efficiencies and improve customer service; revising service specifications; changing operational delivery arrangements.
- Channel shift: moving services on line (particularly transactional activities such as paying for a service, requesting a service or notifying the Council about a service requirement or about information) and via telephony and self serve. We need to ensure that outcomes are co-designed with our customers and leads to improved customer experience. The recent analysis undertaken about customer preferences shows that a large proportion of survey respondents had used the website to find information (91%) but far fewer had used it 'to report' (22%) 'to pay' (14% or 'to apply for services'(13%).
- Market testing: consideration of our largest services for outsourcing-testing the market in respect of value for money, competitiveness and quality; using market analysis to benchmark against our existing costs and enabling the policy choice to be made about in-house (redesigned) or externalised services.
- Reviewing corporate and shared services costs and functions to align them to the departmental changes that emerge from any front line service changes. Staff briefings are a regular feature in support of this review.

14.3 Should the road map target be met (provision has been made for a £350k shortfall) then at the end of 2015/2016 the Council should have achieved a sustainable budget (there is in fact a slight shortfall of £51k at the end of

2015/2016) and strongly suggests the Council's current strategy is the correct one.

15.0 Capital Programme 2010/15

15.1 The Capital Programme was approved by Council at its meeting on 26th January 2011. Since that date the capital programme is reported regularly to the Budget Panel with a quarterly review by Cabinet. In addition specific reports have been considered by Cabinet and which have affected the originally approved programme. For example, Cabinet on 5th December 2011 approved a report upon the Croxley Rail Link and agreed the earmarking of £2m of capital resources to enable a further £116m of investment to be leveraged in. The current capital programme is attached therefore at **Appendix 11**.

15.2 Cabinet should note that there is a Section highlighted as being new schemes and totalling £379k and which require approval for inclusion within the currently approved programme

15.3 The Capital Programme at Appendix 11 also includes an assessment of likely available resources to finance all capital expenditure and where an assumption has had to be made regarding future asset disposals. The last two tables at Appendix 11 indicate that the revised capital programme once completed will leave a residual balance of capital receipts of £1,267k for the General Fund, and £370k for Section 106 projects.

16.0 CONCLUSIONS

16.1 The Budget for 2012/13 has had to be prepared against a background of deep economic recession. The Council's own budgets in the past have been heavily dependent upon its commercial rents portfolio and this is now coming under great pressure with an increase in insolvencies across the retail sector. It is fortunate that the Council has been prudent in the past in building up its reserves during a more prosperous era because that foresight now enables the Council to seek to ride out the tide in the current depressed conditions.

16.2 It is vitally important however that the Council plans to achieve a sustainable budget by the end of the current MTFs period and to that extent the service prioritisation process and Roadmap have shown the very best practice in financial planning.

17.0 CONSULTATION

17.1 During autumn 2010, in anticipation of the reduction in government funding, the Council conducted extensive consultation with local people to ascertain their view on its draft proposals for meeting the level of savings that were likely to be required. These proposals (which comprised, in the main, the council's service prioritisation programme) covered a two year budget period – in line with the government's announcement of a funding settlement to March 2013. The

feedback received supported the Council's decision-making on where savings could be achieved.

- 17.2 In view of the two year timeframe of the settlement and the government initiative to offer financial incentives to councils for freezing council tax, there were no significant areas identified to consult on for 2012/13. In line with best practise, the council only conducts consultation where peoples' feedback can help shape decision-making. The Elected Mayor will hold her annual information events for local people in January. This will cover a wide range of issues of importance to local people – not just the council budget. If anything significant arises, in relation to the budget, it could be fed back through the budget meeting of Council on 25th January 2012.
- 17.3 Budget Panel has been fully engaged throughout this process and feedback from its meeting on 11th January will be circulated prior to the Cabinet meeting.
- 17.4 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.

18.0 IMPLICATIONS

18.1 Financial Implications

These are adequately covered within the report.

18.2 Legal Implications

In the Constitution it is Council who is required to set the budget, which includes the Council Tax Base and setting the level of Council Tax. Cabinet therefore must forward it's recommendations on the budget to Council. The Constitution also requires that any recommendation from Cabinet to Council regarding the budget must be submitted before the 8th February in the preceding financial year to enable the Mayor to have the opportunity to call in any decision of Council on the budget. The Council must set its budget by 11th March 2012 for 2012/2013.

18.3 Equalities

An equality impact assessment has been carried out regarding the service efficiency proposals within this report for 2012/2013 and was reported in detail to Cabinet on 13th December 2010.

18.4 **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 2012/2013 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 2012/2013	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

18.5 **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.

18.6 **Accommodation**

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

18.7 **Community Safety**

All proposals relating to 2012 / 2013 Revenue Estimates will have taken into account the effect upon community safety.

18.8 **Sustainability**

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

Appendices

Appendix 1	Summary of Draft Revenue Support Grant Settlement (as it affects WBC)
Appendix 2	Draft Base Budget 2011/ 2015
Appendix 3	Service Prioritisation Years 2 & 3 Savings Update.
Appendix 4	Revenue Growth 2012 / 2015
Appendix 5	Summary of Fees and Charges Proposals for 2012/2013
Appendix 5B	Concessions Policy for Fees & Charges
Appendix 6	Revenue Savings 2012 / 2015
Appendix 7A	Revised Medium Term Financial Strategy before Base Budget Adjustments
Appendix 7B	Revised MTFS After Variations to Base Budgets
Appendix 8A	Schedule of Reserves
Appendix 8B	Notes to the Reserves
Appendix 9	Key Risks
Appendix 10	Notes to the Council Tax Base 2012 / 2013
Appendix 11	Draft Capital Programme 2010 – 2015
Appendix 12	Detailed Schedules of Fees and Charges Proposals for 2012/2013

Background Papers

Regular reports to Cabinet/ Budget Panel
Government Statement re New Homes Bonus 1st December 2011
Draft Government Revenue Support (Formula) Grant Settlement 8th December
Detailed Budget Working Papers
Finance Digest as at Period 8 (circulated to all members of Council)

File Reference

None

REVISED MEDIUM TERM FINANCIAL STRATEGY
General Fund Budget Projections 2011/12 - 2015/16 as at December 2011

	2011/12 Original	2012/13	2013/14	2014/15	2015/16
Base	16,387,090	14,581,090	14,638,930	14,485,410	14,875,820
Service Prioritisation: Phase I	(1,806,000)	(942,780)	(228,000)	-	-
Reduced Investment Interest	41,000	55,000	5,000	5,000	-
Commercial Rents - shortfall	698,260	-	-	-	(200,000)
Homelessness Bed and Breakfast	150,000	-	-	-	(150,000)
Revenues and Benefits: Reduced administration grant	56,000	21,000	-	-	-
Revenues and Benefits: client review	(237,640)	-	-	-	-
Elections - cyclical profile	-	(80,000)	-	150,000	(70,000)
Shared Services - Operating Costs / Phase 2	(79,060)	(7,520)	-	116,330	100,000
Building Maintenance (to be met from capital)	(240,000)	-	-	-	-
Pay Inflation / Increments	362,133	309,010	-	588,910	330,000
Procurement income reduced	12,500	-	-	-	-
Contract / Utilities / Fuel Inflation	130,527	99,130	-	110,030	100,000
Other Inflation & adjustments	88,110	14,510	-	7,940	-
Increased support service charges to capital	(135,210)	(7,650)	-	(18,700)	-
Service Prioritisation: Phase I not achieved	154,000	-	-	-	-
Council Roadmap Efficiencies	-	(329,000)	-	(669,000)	(1,017,000)
Council Roadmap Contingency	-	-	-	100,000	250,000
Net Expenditure	14,581,090	14,638,930	14,485,410	14,875,820	14,218,820
Funded By:					
RSG Formula Grant / Redistributed NNDR	6,051,136	5,214,000	5,140,000	4,909,000	5,000,000
CLG Grant for Council Tax Freeze	204,688	204,688	204,688	204,688	-
Additional CLG for Council Tax Freeze	-	204,688	-	-	-
New homes bonus	Not known at time	1,516,000	420,000	420,000	420,000
Homeless Grant - excess over expenditure	95,420	-	-	-	-
Collection Fund Surplus	178,852	-	-	-	-
Planned contribution to Earmarked Reserves	(150,000)	(150,000)	(150,000)	(150,000)	(100,000)
From Reserves to fund overspend	13,487	(608,908)	380,190	776,213	(48,450)
	6,393,583	6,380,468	5,994,878	6,159,901	5,271,550
Council Tax Requirement	8,187,507	8,258,462	8,490,532	8,715,919	8,947,270
CTR target	8,187,507	8,258,462	8,490,532	8,715,919	8,947,270
Council Tax Base	32,771	33,055	33,155	33,205	33,255
Council Tax % increase	0.00	0.00	2.50	2.50	2.50
Average charge	250	250	256	262	269
	-	-	-	-	-

BIA300 N0301 -1,428,783
 N0304 -4,622,353
 BIA300 N0306
 BIA300 N0306
 BIA300 N0308
 BIA300 N0307
 BIA450 M0201 WRV026 (Vehicle resv)
 BIA451 M0301 WRV025 (Econ impact)

Refresh From Reserves

BIA300 N0303

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REVISED MEDIUM TERM FINANCIAL STRATEGY

General Fund Budget Projections 2011/12 - 2015/16 as at December 2011

	2011/12 Original	2012/13	2013/14	2014/15	2015/16	
Base	16,387,090	14,581,090	14,897,050	14,611,660	14,974,820	
Service Prioritisation: Phase 1	(1,806,000)	(942,780)	(228,000)	-	-	
Reduced Investment Interest	41,000	41,000	55,000	5,000	-	
Commercial Rents - shortfall	698,260	698,260	-	-	(200,000)	
Homelessness Bed and Breakfast	150,000	150,000	-	-	(150,000)	
Revenues and Benefits: Reduced administration grant	56,000	56,000	21,000	-	-	
Revenues and Benefits: client review	(237,640)	(237,640)	-	-	-	
Electons - cyclical profile	-	-	(80,000)	150,000	(70,000)	
Shared Services - Operating Costs / Phase 2	(79,060)	(79,060)	(7,520)	116,330	100,000	
Building Maintenance (to be met from capital)	(240,000)	(240,000)	-	-	-	
Pay Inflation / Increments	362,133	362,133	309,010	588,910	330,000	
Procurement income reduced	12,500	12,500	-	-	-	
Contract / Utilities / Fuel Inflation	130,527	130,527	99,130	110,030	100,000	
Other inflation & adjustments	88,110	88,110	14,510	7,840	-	
Increased support service charges to capital	(135,210)	(135,210)	(7,650)	(18,700)	-	
Service Prioritisation: Phase 1 not achieved	154,000	154,000	-	-	-	
Council Roadmap Efficiencies	-	-	(329,000)	(669,000)	(1,017,000)	
Council Roadmap Contingency	-	-	-	100,000	250,000	
Fees and charges	271,920	271,920	-	-	-	Not loaded to system
Savings	(333,500)	(333,500)	(37,170)	(2,250)	-	Not loaded to system
Growth	319,700	319,700	(94,700)	(25,000)	-	Not loaded to system
Net Expenditure	14,581,090	14,897,050	14,611,660	14,974,820	14,317,820	
Funded By:						
RSG Formula Grant / Redistributed NNDR	6,051,136	5,214,000	5,140,000	4,909,000	5,000,000	BJA300 N0301 -1,428,783
CLG Grant for Council Tax Freeze	204,688	204,688	204,688	204,688	-	BJA300 N0304 -4,622,353
Additional CLG for Council Tax Freeze	204,688	204,688	-	-	-	BJA300 N0306
New homes bonus	Not Known at time	1,516,000	420,000	420,000	420,000	BJA300 N0308
Homeless Grant - excess over expenditure	95,420	-	-	-	-	BJA300 N0307
Collection Fund Surplus	178,852	-	-	-	-	BJA450 M0201 (Vehicle resv)
Planned contribution to Earmarked Reserves	(150,000)	(150,000)	(150,000)	(150,000)	(100,000)	BJA451 M0301 (Econ impact)
From Reserves to fund overspend	13,487	(350,788)	506,440	875,213	50,550	WRV026 WRV025
	6,393,583	6,638,568	6,121,128	6,268,901	5,370,550	Refresh From Reserves
Council Tax Requirement	8,187,507	8,258,462	8,490,532	8,715,919	8,947,270	BJA300 N0303
CTR target	8,187,507	8,258,462	8,490,532	8,715,919	8,947,270	
Council Tax Base	32,771	33,055	33,155	33,205	33,255	
Council Tax % Increase	0.00	0.00	2.50	2.50	2.50	
Average charge	250	250	256	262	269	

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Cost Centre	Description	Balance April 2012
VHF000	General Fund Working Balance - Not Available For Use	-1,350,000
Earmarked Reserves		
VFD000	Car Parking Zones Reserve	-450,000
VGH000	Charter Place Tenants Reserve	-673,634
VGU000	Le Marie Centre Repair Reserve	-13,687
VGV000	Multi-Storey Car Park Rep Reserve	-182,784
VHL000	Rent Deposit Guarantee Scheme	-100,000
VHM000	Homelessness Prevention Reserve	-112,238
VHN000	Housing Benefit Subsidy	-367,221
VLS000	Performance Reward Grant Reserve	-48,064
VNL000	Climate Change Reserve	-67,806
VNN000	Recycling Reserve	-17,700
Total Earmarked Reserves - Not Available For General Use		-2,033,134
Future Committed Reserves		
VHG000	Leisure-Structural Maintenance Reserve	-422,514
VHK000	Local Development Framework Reserve	-312,722
VLN002	Future Pension Funding Reserve	-900,000
VLN003	Insurance Fund Reserve	-100,000
VLN004	Vehicle Replacement Reserve	-300,000
VLW000	Development Sites - Decontamination Reserve	-1,310,324
Total Future Committed Reserves - Inadvisable To Use		-3,345,560
General Reserves		
VLL000	Invest To Save	-1,416,000
VLM000	Capital Fund Reserve	-1,895,682
VLP000	LA Business Growth Incentive	-633,000
VLR000	Area Based Grant Reserve	-86,050
VLT000	Housing & PDG Reserve	-300,934
VLV000	Economic Impact Reserve	-250,000
	New Homes Bonus	-420,000
Total General Reserves		-5,001,666

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RESERVES

APPENDIX 8B

As at April 2012

General Fund Balance **£1,350,000**

(this balance should remain untouched. It represents approximately 8.8% of our Net Revenue Expenditure and is effectively our ultimate fall back contingency should budget problems occur).

Earmarked Reserves **£2,033,000**

It is necessary to distinguish between those reserves which can be accessed and those that are earmarked for specific purposes. Appendix 8A details those that are essentially earmarked with the two largest being the Charter Place Tenants and CPZ Reserves.

Future Committed Reserves **£3,346,000**

There are a number of reserves which it would be short sighted and unwise to use purely to sustain current service operating costs. The history of poorly run authorities is littered with instances where no planning for the future has occurred. A financially resilient authority anticipates the need to finance future, significant one off costs. These future, committed reserves include:

Leisure Structural Maintenance Reserve (£423k). This is a buildings fund which is earmarked to carry out structural repairs to the two highly successful Leisure Centres. The outsourced contract with SLM does not include future structural maintenance. Should the Council choose to divert these resources then there would be a great danger that the facilities will deteriorate and future income would fall. The two assets have a value in excess of £20m and need to be structurally maintained. As the centres are relatively new, this buildings fund may not be accessed until the end of the four year forecast.

Local Development Framework Reserve (£313k). The LDF Reserve is required for the production of the Local Plan over the next two years.

Future Pension Funding Reserve (£900k)

This reserve has been earmarked to meet voluntary redundancy, pension strain, and any annual end of year shortfalls into the Pension Fund required by the Herts CC Actuary.

Insurance Fund Reserve (£100k)

As part of the annual review of insurance premiums with the Council's external insurance provider, Zurich Municipal, it was necessary to increase the excess costs payable before the insurance cover takes effect. In addition notification has recently been received that the former Municipal Mutual Insurance Company is 'unlikely' to have a solvent run off. Watford currently has outstanding registered claims of £347k awaiting resolution with MMI. A minimum Insurance Reserve Fund needs to be maintained.

Vehicle Replacement Reserve (£300k). This is to be built up over the next five years to enable some provision to be made for the ultimate replacement of the Council's refuse fleet.

Development Sites-Decontamination Reserve (£1,310k).

The Council has a programme of development projects where it is possible that decontamination works will be required. In addition, as part of the Housing Stock disposal, there were 4 sites which were transferred to the Housing Trust (Foxhill, Raphael Drive, Croxley View, and Chesham Way) for which insurance cover for contamination was not available—due to its likelihood.

General Reserves

£5,002,000

These reserves include the residue of the former specific grant regime and which will probably be progressively drawn down for specific one off initiatives.

The use of these reserves could include the following:

- financing one off initiatives such as up front investment in order to deliver ongoing savings
- financing projects within the capital programme in order to supplement a shortage of capital receipts
- subsidising annual revenue budgets by financing any deficits through the use of reserves

It should be noted that the use of reserves to finance a deficit within annual budgets can only be a temporary expedient as it will be necessary at some point to identify efficiency savings or alternative sources of financing in order to plug the gap.

A few supplementary notes about some of the general reserves include:

The Invest to Save (£1,416k) and Capital Fund Reserve (£1,896k) are capable of any use but were primarily set up in order to finance the first two bullet points above.

The Economic Impact Reserve (£250k) is the reserve that will be drawn down first to cover any deficits in the annual revenue budgets and has been heavily drawn down in 2011/2012 to finance a shortfall in commercial rent income.

The New Homes Bonus Reserve of £420k was notified to the Council in February 2011 and after the 2011/2012 Budget was set. Its specific use is yet to be decided by Council.