



**WATFORD
BOROUGH
COUNCIL**

FINANCE SCRUTINY COMMITTEE

10 September 2020

7.00 pm

Virtual meeting

Contact

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For information about attending meetings please visit the [council's website](#).

Committee Membership

Councillor M Turmaine (Chair)

Councillor P Kloss (Vice-Chair)

Councillors D Allen-Williamson, N Bell, A Khan, J Pattinson, G Saffery, Stanton and D Walford

Agenda

Part A - Open to the public

1. Apologies for absence

2. Disclosure of interests

3. Minutes

The [minutes](#) of the meeting held on 29 June 2020 to be agreed. They will be signed once officers and members return to the Town Hall.

4. Finance Digest - Period 4 July (Pages 3 - 35)

5. Financial Planning - budget setting process (Pages 36 - 46)

6. Croxley Park Update (Pages 47 - 55)

Agenda Item 4

Part A

Report to: **Finance Scrutiny Committee**

Date of meeting: **Thursday, 10 September 2020**

Report author: **Section Head - Financial Planning & Analysis**

Title: **Finance Digest - Period 4 July**

1.0 **Summary**

- 1.1 This report informs the Finance Scrutiny Committee of the Council's 2020/21 financial position at the end of July 2020 (Period 4).
- 1.2 Budget monitoring report is a key tool in scrutinising the Council's financial performance. It is designed to provide an overview to all relevant stakeholders. It is essential that the council monitors its budgets throughout the year to ensure that it is meeting its strategic objectives and that corrective action is taken where necessary.

2.0 **Risks**

2.1

Nature of risk	Consequence	Suggested Control Measures	Response (treat, tolerate, terminate or transfer)	Risk Rating (combination of severity and likelihood)
The budgets set are not sufficiently accurate	Creates either in-year budget pressures, underspends or additional borrowing costs	Use of reserves	Treat	6
The Council will not have adequate reserves to manage emerging risks	Reserves diminish	General Fund Balance is set at £2M	Treat	6
Watford as a place and as a council does not recover from the impact of the pandemic	Serious impact on the economy and vibrancy of the town. Reduction in the ability of the council to deliver the requirements of residents and businesses and fulfil its statutory obligations. Impact on long term financial sustainability of the Council	Recovery cell established to ensure that plans are put in place as early as possible with action taken as early as possible and to ensure the decision-making during the incident is cognisant of Recovery. The recovery cell will have a focus on financial and economic recovery.	Treat	9

3.0 Recommendations

- 3.1 To consider the 2020/21 Finance Digest as shown in Annex A, and note both the revenue and capital forecast outturn positions.
- 3.2 Make any recommendations to Cabinet/Council.

Further information:

Nigel Pollard

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Report approved by: Alison Scott

4.0 Detailed proposal

- 4.1 The emergence of Covid-19 and the subsequent lockdown has had a significant impact upon the finances of the council both in terms of additional expenditure and reductions in income levels. The Council has continued to monitor the position closely and this report set out the latest forecast of the impact of Covid-19 on the Council's finances as well as business as usual variances that have been identified to date.
- 4.2 An interim budget monitoring report was presented to Council on 14 July 2020 showing the estimated financial impact of Covid 19 on the Council finances to date. The report also highlighted that a review of existing earmarked reserves had been undertaken to identify a Recovery Fund of £1.2M to meet the one-off costs of the council's work on the recovery of Watford from Covid-19. The recommendations in the report were agreed which allowed for the changes to both individual capital and revenue budgets and the creation of the Recovery Fund.
- 4.3 The financial implications of the report has been included in the latest revenue and capital budgets. The attached Finance Digest therefore compares the latest budget for 2020/21 with the forecast outturn.
- 4.4 The detailed report (Finance Digest) is attached at Annex A.

5.0 Implications

5.1 Financial

- 5.1.1 Contained in the attached Finance Digest (Annex A)

5.2 Legal Issues (Monitoring Officer)

- 5.2.1 There are no legal implications arising this report.

5.3 Equalities, Human Rights and Data Protection

- 5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –
- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
 - advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
 - foster good relations between persons who share relevant protected
- 5.3.2 Having had regard to the council's obligations under s149, it is considered that there are no equalities or Human Rights implications.
- 5.3.3 Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

5.4 Staffing

- 5.4.1 There are no staffing implications arising from this report.

5.5 Accommodation

- 5.5.1 There are no accommodation implications arising from this report.

5.6 Community Safety/Crime and Disorder

- 5.6.1 There are no community safety/crime and disorder implications arising from this report.

5.7 Sustainability

- 5.7.1 There are no sustainability implications arising from this report.

Appendices

- Annex A – Finance Digest – July 2020 – Period 4

Background papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

Financial Outturn 2019/2020 (June 2020)
2020/21 Budget Update – Council 20 July 202

FINANCE DIGEST

2020/21

BUDGET MONITORING



Period 4 (as at 31 July)



Watford Borough Council · TOWN HALL · WATFORD, HERTS WD17 3EX

Executive Summary

The Budget monitoring report is a key tool in scrutinising the Council's financial performance and is designed to provide an overview to all relevant stakeholders. It is essential that the council monitors its budgets throughout the year to ensure that it is meeting its strategic objectives within its resource limits and, where necessary, corrective action is taken. A key principle of budgetary control is to align the budget holders' financial and management responsibilities.

This Finance Digest shows the expected financial position (forecast outturn) for the current financial year based on the Council's actual financial performance at the end of Period 4 (July) 2020 set against the latest budget. A glossary of financial terms is shown at **Appendix 9**.

Revenue summary

The original budget of **£15.753 million** for 2020/21 was approved by Council on 28 January 2020. The latest budget is **£17.509 million**, which includes approved budget carry forwards of £0.724 million from 2019/20 and £1.032 million additional budget change due to COVID19 as approved by Council on 14 July 2020.

The 2020/21 forecast outturn is estimated to be **£17.452 million**. This gives a favourable variance of **£0.057 million**, when compared to the latest budget of £17.509 million, which takes into account the estimated funding from the Government's income guarantee scheme of £1.000 million

<u>Variance</u>	<u>£000</u>
Parking Service additional service provision costs – CPZ funded	257
Digital service Improvements – PMB funded	40
Watford2020 savings previously identified not allocated against the savings target	121
Additional operational support for SLM – COVID19	350
Additional loss of income SLM contract – COVID19	721
Additional employee costs	54
Net Change in investment income from outsourced properties	(604)
Additional local authority support grant – COVID19	(150)
Loss of interest income from investments	50
Additional employee costs on revised pay award	83
Estimated recovery of lost income during Covid 19 from the Government's Income Guarantee scheme	(1,000)
Other Variances (<£20,000)	21 (354)
Total Service Variance Period 4 (April – July)	(57)

Of the total favourable variance of (£0.057 million), £0.297 million will be funded from earmarked reserves, and the balance taken to the Economic Impact reserve. The table below shows a summary of the position on the Council's funding and reserves for 2020/21.

Medium Term Financial Strategy	2020/21 £ 000
Latest Budget	17,509
Variances this period (Appendix 2)	(57)
Forecast Outturn	17,452
Funding (income from business rates, grants and council tax)	13,734
Budgeted use of reserves	3,775
Planned use of earmarked reserves included in total variance	297
Additional contribution (to) / from reserves	(354)
Total funding and use of reserves	17,452

Capital summary

The 2020/21 capital budget is **£119.738 million**. The latest capital budget is £124.288 million, includes rephasing from 2019/20 and COVID19 variations as approved by Council on 14 July 2020. Services are now forecasting an outturn position of **£125.293 million** resulting in a variance of **£1.005 million**. The programme is funded as per the table below:

Medium Term Financial Strategy	2020/21 £ 000
Latest Budget (including repased schemes from 2019/20	124,288
Variances this period (Appendix 3)	1,005
Forecast Outturn	125,293
Funding the capital programme	
Grants & contributions, S106 & CIL	2,805
Reserves	497
Capital Receipts	6,560
Borrowing – Internal/External	115,431
Total Funding	125,293

It is expected that there may be further rephasing between 2020/21 and future years however, at this stage this has not yet been identified.

Reserves summary

The effect of the revenue variances upon the reserve is shown in the table below. A list of reserve balances is shown at **Appendix 8**.

Description	Balance at 1 April 2020	Movement in Year	Balance at 31 March 2021
	£000	£000	£000
Earmarked Reserves	(19,916)	3,567	(16,349)
General Fund	(2,000)	0	(2,000)
Total	(21,916)	3,567	(18,349)

1.0 Revenue Budget

1.1 The latest budget is **£17.509 million**, which includes approved budget carry forwards from 2019/20 and changes due to COVID19 totalling £1.756M. The services' prediction of forecast outturn is now estimated to be **£18.452 million** which results in a favourable service variance of **£0.057 million**. However, after the planned use of earmarked reserves of £0.297M, this gives a favourable variance of £0.354M.

The table below compares the latest budget to the forecast outturn and shows the variance against each service. The figures in the table relate to direct costs for each service.

Revenue Account 2020/21			
Service Area	Latest Budget £000	Forecast Outturn £000	Variance £000
Service Transformation	2,714	3,498	784
Community & Environmental	10,203	11,122	919
Democracy & Governance	1,972	2,002	30
Place Shaping	(3,407)	(4,239)	(832)
Corporate Strategy & Communications	523	(474)	(997)
Human Resources	699	653	(46)
Strategic Finance	4,805	4,890	85
Net Expenditure	17,509	17,452	(57)

1.2 Details of the latest budget, spend to date, forecast outturn and an explanation for the variance by service is shown at **Appendix 1**. Services with significant forecast outturn variances have provided the narratives below:

- **Service Transformation**

The Watford2020 Project has identified a total savings of £789k against the 2020/21 target, £668k has been allocated to services from the W2020 savings target budget and there is no overall effect as shown in the table below.

Watford 2020 budget realignments	
Savings to Services	£
Service Transformation	(163,128)
Community & Environmental	(101,385)
Democracy & Governance	(48,818)
Place Shaping	(244,507)
Corporate Strategy & Communications	(17,127)
Human Resources	(45,500)
Strategic Finance	(48,114)
From W2020 savings target	668,579
Net	0

In addition, as part of this budget monitoring and £121k had been taken from the base budget previously which is now being allocated against the target savings. £80k projected income from letting addition space in the Annex is now not expected to materialise due to Covid 19.

- **Community & Environmental**
Loss of income of £721k and additional support due to COVID19 of £350k has been agreed for SLM.
- **Place shaping & Performance**
Additional costs as part of the parking service review of £256k. These costs will be funded from the CPZ reserve. Net increase in income from investment assets outsourced of £604k as detailed in Appendix 1A. Savings identified by the service for the Watford2020 project equates to £244k.

1.3

Spend to Date

The table below shows the net spend to date and the percentage for each service area when compared to the latest budget at Period 4. The total overall percentage spend is 4%

Revenue Account 2020/21			
Service Area	Latest Budget £000	Spend to Date £000	Percentage spend to date %
Service Transformation	2,713	1,673	62
Community & Environmental	10,203	4,212	41
Democracy & Governance	1,972	655	33
Place Shaping	(3,407)	(5,687)	167
Corporate Strategy & Communications	523	(1,557)	(298)
Human Resources	699	218	31
Strategic Finance	4,805	1,133	20
Net Expenditure	17,509	647	4

1.3.1

The council would expect to have spent approximately 33% (£5,836 million) of net expenditure by the end of Period 4. The reasons for the significant variance of each service is explained below;

- **Service Transformation**
ICT costs for software licences have been paid for the whole year and Shared Service costs charged to TRDC for the 1st quarter have been raised in August.
- **Community & Environmental**
Accrued income for the parking service (2019/20) gets recovered through the year. There will be no income from SLM for the year, this has been reported as part of this budget monitoring report. The majority of spend on Sustainable Transport programme will take place in the second half of the year.
- **Place shaping & Performance**
Flexible homelessness grant received early in the year will be used as we progress through the year. The majority of spend on Sustainable Transport programme will take place in the second half of the year.

- ***Corporate Strategy & Communications***
Government Grant received for small businesses due to COVID19 to be paid out as and when claims are received.
- ***Strategic Finance***
The annual £2.2m pension deficit will be paid towards the end of the year.

1.4 Staff Vacancies

1.4.1 A major risk of non-delivery of service is where key staff leave the Council's employ and there is a delay or difficulty in recruiting suitable candidates to fill the vacant post. The table below summarises the level of vacancies at the end of July 2020 with a detailed analysis provided by HR at **Appendix 2**.

Service	Number of Vacant Posts (FTE's)
Service Transformation	9
Community & Environmental	5
Democracy & Governance	3
Place Shaping	9
Corporate Strategy & Communications	1
HR	0
Total	27

1.4.2 The percentage of vacancies at the end of period 4 is 11% when compared against the total number of 228 Council FTE's. In some cases, vacant posts will be covered by agency staff to ensure service delivery.

1.5 Government Funding

- 1.5.1 The total level of funding that Government will make available to the Council is at present uncertain. To date the Council has received £1.159M from local government's £3.7bn of Emergency funding and £14k towards rough sleepers. This is to support the additional revenue implications that the Council is facing. There are concerns that local authorities especially district Councils will not be receiving any further financial support as the Government prioritises its funding to other public services.
- 1.5.2 On July the 2nd the Secretary of State announced an income guarantee package that will fund 75% of lost fees and charges above a 5% threshold. The mechanics of this scheme have not been published but it has been made clear that it excludes property rents. It is estimated that the Council could be entitled to £1.0 million.
- 1.5.3 The Council has received £802,000 for the Council Tax hardship fund and £17.3M for Small Business and Retail, Hospitality and Leisure Grants. A further Discretionary Grants Fund of up to 5% of the £17.3m is to be received to provide grants to small businesses with ongoing fixed property-related costs who were not eligible for Small Business Grant Fund (SBGF) or the Retail Hospitality and Leisure Grant Fund (RHLGF).

2.0 Capital Programme

- 2.1 The Council has an approved capital investment programme that is designed to support its core services. The original capital programme for 2020/21 (as approved by Council in January 2020) was **£119.738 million**. The latest budget following re-phasing from 2019/20 and Covid 19 changes 2019/20 as approved by Council on 14 July 2020 is **£124.288 million**.
- 2.2 The forecast outturn is estimated to be **£125.293 million** which is an increase of £1.005 million and relates solely to the capital works on infill sites which is funded from a Local Enterprise Partnership (LEP) grant.
- 2.3 The Council's medium term capital investment programme for 2020-2023 is shown at summary level in **Appendix 3** and by each scheme at **Appendix 4**. As at end of July services have spent £4.583 million against the latest forecast, which represents 4%. The major schemes where little or no expenditure has been incurred up to the end of July include, Watford Riverwell Project, Redevelopment Town Hall, and Hart Homes.

Funding the Approved Capital Programme

- 2.4 The capital programme is mainly supported by three income streams; capital receipts (derived from the sales of assets), grants and contributions, and the use of reserves. Services can also make a contribution to capital from surplus revenue funds if needed. In addition the Council may borrow to fund its capital programme. Details of each funding stream are shown at **Appendix 5**. Any decision on borrowing will be taken if and when it is required, which depends on the progression of all the 2020/21 schemes.

3.0 Key Risk Areas

- 3.1 Resources are allocated in the revenue and capital budgets to support the achievement of The Council's corporate plan. The Council's budget is exposed to risks that can potentially impact on service level provision. The key risks highlighted as part of this monitoring are;

• Covid 19

Covid-19 is having a widespread impact on local authority spending throughout the country and had been particularly significant for district council's with much of the funding to date going to Counties in two tier levels. Although many restrictions are being lifted and the Council is working through its recovery phase there is much uncertainty as to how these will affect the 'new normal' and whether some services will return to normal as much will depend on the confidence and habits of the community at large and whether a second wave of the virus causes another national or local lockdown.

• Temporary Accommodation

The Council is exposed to its statutory obligation to provide temporary accommodation for those families who present themselves as homeless. The Council has a capital sum £2.4 million to provide temporary accommodation which will support the demand and reduce the cost of expensive alternatives such as private Bed & Breakfast. The Council could see an increase in costs when evictions are able to resume in August and the Governments Coronavirus Job Retention Scheme closes on 31 October 2020.

• Commercial Income

Commercial income is collected for quarters in advance on what are known as 'quarter days'. The last quarter day was in June and income is lower than expected due to Covid 19. The table below shows the comparisons across the 4 prior quarters at the 28 day mark.

	Sep-19	Dec-19	Mar-20	Jun-20
	28 Days PQD	28 Days PQD	28 Days PQD	28 Days PQD
Core Investment Portfolio	99%	97%	93%	76%
Croxley Park	77%	94%	84%	68%
Consolidated	85%	95%	87%	70%

The council has estimated that it could lose £1.8M in commercial income from the commercial investment portfolio, Intu and Croxley Park during the remainder of the year. When it entered into the Croxley Park lease, the Council received cash up front to cover any shortfalls in rent within the park. This cash will be used to mitigate the impact of any rent shortfalls as a result of Covid-19. It should be noted that the various assurances packages i.e. discretionary grants, rates and VAT holidays and other initiatives have no doubt helped business and tenants weather the storm so far. Further reduction in income will depend on any impact of a second spike of the virus, a prolonged recession and the effect of Brexit, which cannot yet be determined, but no doubt carries a continued risk.

• Leisure Management Contract

A financial agreement has been made with the operator, and although this is a capped sum which is estimated to be recovered through an enhanced profit share arrangement over the remaining life of the contract, it cannot be guaranteed and does not take account of a second wave of the pandemic.

• Business Rates & Council Tax

The Government has made funding available both for the additional Retail, Hospitality and Leisure reliefs given to business rate payers and the additional support for those of working age who are entitled to Council Tax Relief Support(CTRS). However these reliefs are not expected to completely mitigate the impacts of Covid-19 on Council Tax and NDR. Any impact on collection rates will feed through the Collection Fund to impact on council spending power in 2021-22. The table below shows the impact on collection rates in the first four months of this year.

Fund	Period 4 2020/21 Target	Period 4 2020/21 Actual	Difference
Council Tax	39.7%	36.2%	-3.5%
Business Rates (NNDR)	39.0%	29.2%	-9.80%

Whilst there has been a drop in collection rates, recovery and enforcement action was temporarily suspended in March 2020 and in response to enquiries from both businesses and council tax payers the authority agreed to defer payment for approx. 100 businesses and 5,000 charge payers. 2,800 council tax instalment reminders have been issued since the 27/05/2020 for a total of £705,000 and 435 business rates reminders for a total of £825,000. Our recovery team have also been attempting to contact businesses and charge payers who have been issued a reminder notice but have not been in contact or made payment.

In addition to falls in collection rates the MTFS assumes a level of growth in both the council tax base and NDR base as a result of new developments. With the general slowdown as a result of Covid-19 it is likely that this new development will be delayed with a result impact on the council's tax base. The council is expecting there to be an increased number of working age people applying for CTRS as a result of increasing unemployment. The Government has announced that proposed changes to the system of business rates retention planned for April 2021 will be delayed and that deficits on the collection fund can be recovered over 3 years. It has also given indications that issues surrounding councils' tax collection rates and revenues from taxation will be considered as part of the autumn spending review along with New Homes Bonus.

- **Income from Hart Homes**

The Council is currently in joint venture with Watford Community Housing to develop a mixture of affordable, social and open market housing. The Council will receive interest on its investment loans to the companies and this will amount to £5.004 million gross over the MTFS four year period.

- **Croxley Park**

The Council completed its acquisition of Croxley Park in July 2019. As a result the Council is committed to paying the head lease rental of £9.2m per annum, increasing by RPI annually capped at 5%. The Council will receive rent from tenants which is modelled to provide over the 40 year term an additional £1.5 million per annum income within the revenue budget. This has been revised down to £0.7 million due to Covid 19. It is anticipated that the loss will be met from the set aside sinking fund.

As part of the deal the Council received £24 million in respect of rental top ups and £68 million towards the planned maintenance programme.

- **Town Hall Development**

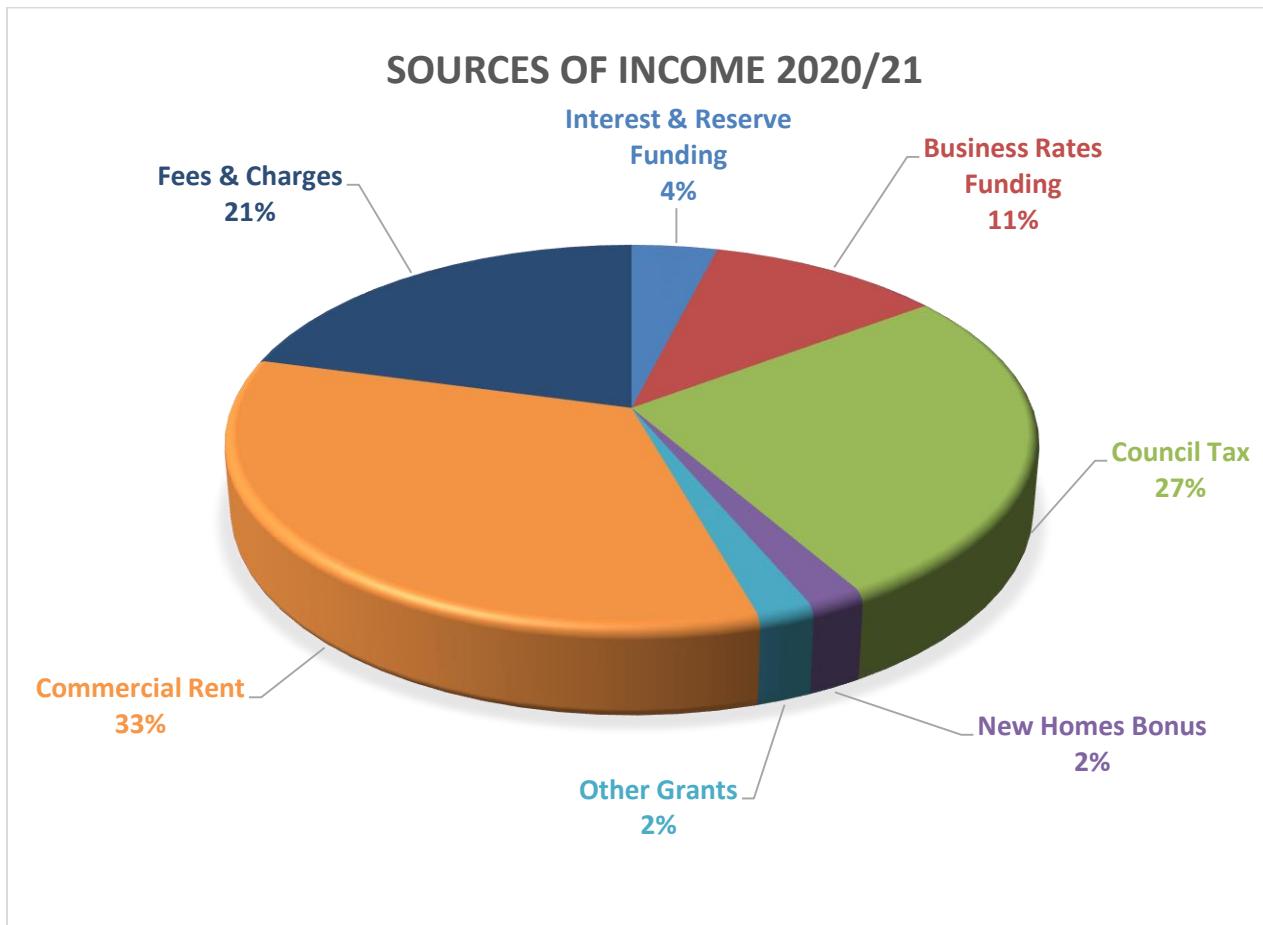
Cabinet on 4 July 2019 approved the consultation on the Northern Hub Masterplan. If the Masterplan is implemented as proposed, this will have implications for the Town Hall site and require the relocation of council staff to a new town centre location. As a result the previous town hall development plans have been put on hold. The reduction in rental income within the MTFS will still apply.

3.2 The Council's overall key financial risk matrix is shown at **Appendix 6**. These are reported and monitored and reviewed by the Council's Audit Committee on a quarterly basis. The latest matrix was presented to the Audit Committee on 7 July 2020.

4.0 Council Income

4.1 In providing its services to the public, the Council receives income from the Government, its local tax payers, customers who pay for using chargeable Council services and income from commercial rents and investments.

4.2 The total of all these sources of income for 2020/21 is **£34.5 million**. The three biggest sources of income are council tax, commercial property rents and service fees and charges. It should be noted that the Council no longer receives any Revenue Support Grant. The chart below shows the percentage of the total amount of income for each source of income.



4.3 ***Service Income Risk Area***

- 4.3.1 Particular income generating items can fluctuate depending on the economic climate, popularity and affordability. The main risks that are considered the most critical and their financial position are shown in the table below.

Service Area	Income Stream	Latest Budget 2020/21	Forecast 2020/21	Variance	Comments
		£000	£000	£000	
Place Shaping	Commercial Rent	(8,202)	(8,888)	(686)	Increase due to vacant unit lets, various rent reviews and backdated rent
	Car Parking Charges	(1,138)	(1,138)	0	On target
	Development Control Fees	(663)	(663)	0	On target
	Building Control Fees	(238)	(238)	0	On target
Community & Environmental	Licensing	(273)	(262)	11	Minor decrease

Debtors (invoicing)

- 4.4 The Council charges its customers for various services by raising a debtor invoice. The customer is given 21 days to pay and unless there is a dispute, a reminder is issued. If the debt remains outstanding, then a variety of recovery methods are employed including:

rearranging the payment terms; stopping the provision of the service or pursuing the debt through legal recovery processes.

- 4.5 As at the 31 July 2020 the total outstanding value of debt (excluding council tax, business rates and government grants) was **£1.342 million** of which £0.884 million (66%) is less than one month old and therefore it is anticipated that this will be recovered. Outstanding debt over a year old is £0.070 million and equates to 5% of the total.

The table below shows a summary of the outstanding debt by the three main aged categories and further detail can be found at **Appendix 7**.

Aged Debtors At the end of November	Under 1 Month	Over 1 month to Year	Over a Year	Total
Service	£000	£000	£000	£000
Community & Environmental	197	262	30	489
Democracy & Governance	29	5	0	34
Place Shaping	650	122	35	806
Human Resources	9	0	0	9
Strategic Finance	0	0	5	5
Total	884	388	70	1,342

5.0 Treasury Management

- 5.1 The Council has managed its cashflows and adhered to its Treasury Management policy during the pandemic. The interest earned on the investments made by the Council supports the funding of the services it provides. The Council set a budget of £150,000 on short-investment interest for 2020/21. The outturn figure is predicted to be £100,000 due to extremely low interest rates as the Bank of England base rate was reduced from 0.25 to 0.10 on 19 March 2020. This will continued to be monitored closely as the year progresses.

- 5.2 The Council works with its Treasury Management advisers to invest in the sinking fund received in relation to Croxley Park taking into account the need to balance the inherent risks and the planned drawdown profile required in relation to voids and maintenance and refurbishment.

Report prepared by: Pritesh Shah – Finance Manager
Nigel Pollard – Section Head – Financial Planning & Analysis

Report reviewed by: Tina Stankley – Interim Head of Finance

Background Papers

2019/20 Outturn report

Budget returns from Heads of Service

Budget Setting (MTFS 2019/20- 2022/23) - Council 28 January 2020

Financial Outturn 2019/2020 (June 2020)

2020/21 Budget Update – Council 20 July 2020

APPENDICES

- Appendix 1 Revenue Summary – By Service and explanation of Variances
- Appendix 2 Staff Vacancies
- Appendix 3 Capital Programme (2019/20) Summary
- Appendix 4 Capital Programme (2019/20) Detail
- Appendix 5 Capital Funding
- Appendix 6 Key Financial Risks
- Appendix 7 Aged Debtor Analysis
- Appendix 8 Reserves
- Appendix 9 Glossary of terms

REVENUE SERVICES – FINANCIAL POSITION AT PERIOD 4

Service Area	Budget, Forecast & Actual at 31 July P4			
	Latest Budget £	Forecast Outturn £	Variance £	Actual £
Service Transformation				
Customer Services	952,211	1,088,291	136,080	401,939
ICT Services	1,069,433	1,037,903	(31,530)	907,055
Corporate Asset Management	1,499,174	1,277,596	(221,578)	268,538
Service Transformation	(807,322)	94,149	901,471	96,235
Totals - Service Transformation	2,713,496	3,497,939	784,443	1,673,767
Community & Environmental				
Contract Monitoring	691,605	691,605	0	1,979,279
Parks And Open Spaces	1,517,394	1,517,394	0	(215,812)
Leisure	407,463	1,478,690	1,071,227	274,606
Grants	766,933	766,933	0	358,492
Environmental Hlth & Licensing	1,454,232	1,403,405	(50,827)	560,573
Culture & Play	969,137	867,752	(101,385)	78,317
Street Cleansing	2,035,280	2,035,280	0	(41,109)
Waste And Recycling	1,959,616	1,959,616	0	226,162
Parking Service	401,666	401,666	0	991,224
Totals - Community & Customer Service	10,203,326	11,122,341	919,015	4,211,731
Democracy & Governance				
Legal And Democratic	1,972,196	2,002,594	30,398	654,874
Totals - Democracy & Governance	1,972,196	2,002,594	30,398	654,874
Place Shaping				
Housing	1,596,487	1,555,987	(40,500)	(1,143,727)
Property Management	924,332	806,488	(117,844)	167,270
Investment Assets Outsourced	(8,201,599)	(8,888,022)	(686,423)	(4,099,946)
Investment Assets Retained	(156,922)	(156,922)	0	(77,538)
Operational Assets - Owner Occupied	(291,553)	(291,553)	0	(53,083)
Community Assets	(19,530)	(19,530)	0	(8,950)
Development Section	360,288	253,621	(106,667)	(256,316)
Transport And Infrastructure	1,703,270	1,821,988	118,718	(263,661)
Policy Team	678,266	678,266	0	48,635
Totals - Place Shaping	(3,406,961)	(4,239,677)	(832,716)	(5,687,315)
Corporate Strategy & Comms				
Corporate Management	276,754	446,754	170,000	317,732
Partnerships & Performance	814,308	797,181	(17,127)	274,007
COVID19 Related	(568,112)	(1,718,243)	(1,150,131)	(2,148,950)
Totals - Corporate Strategy & Comms	522,950	(474,308)	(997,258)	(1,557,211)
Human Resources				
Human Resources Client	184,980	156,980	(28,000)	(21,062)
HR Shared Service	513,529	496,029	(17,500)	239,129
Totals - Human Resources	698,509	653,009	(45,500)	218,067
Strategic Finance				
Finance & Resources	243,753	243,753	0	33,351
Finance Services Client	870,619	870,619	0	458,549
Revenues And Benefits Client	1,113,280	1,065,166	(48,114)	218,276
Corporate Costs	2,577,504	2,710,379	132,875	422,824
Totals - Strategic Finance	4,805,156	4,889,917	84,761	1,133,000
GRAND TOTALS	17,508,672	17,451,815	(56,857)	646,913

VARIANCE ANALYSIS

Service Area	Description	Details of Variances	£
Service Transformation	Customer service Centre	Employee costs efficiency line to be removed. Salary budget set as per new establishment	40,000
	Town Hall & Council Suites	Expected rental income from letting the Annex difficult due to COVID19.	80,000
	Digital Service Improvements	Making services digital, funded by the PMB project	40,000
	Watford2020	As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	(163,128)
		As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	668,579
		Service savings identified previously as part of Watford2020 project, removed from base budget during budget setting 20/21	121,269
Page 20		Other Variances	(2,276)
		TOTAL	784,444
Community & Environmental	Climate Change	Budget Transfer to fund new projects under Commercial - see below	(50,000)
	SLM Contract	Additional support for SLM due to COVID19 of £350,000 and loss of expected income of £721,277	1,071,227
	Watford 2020 Project	As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	(101,385)
		Other Variances	(827)
		TOTAL	919,015
Democracy & Governance	Neighbourhood Forum	Additional budgets required to complete projects in various wards due to COVID19	10,130
	Legal Services	Additional employee costs	54,086
		Additional consultancy costs	15,000
	Watford 2020 Project	As part of the Watford2020 project, services identified budget savings which are offset against Watford2020 under Service Transformation**	(48,818)
		TOTAL	30,398

Service Area	Description	Details of Variances	£
Place Shaping & Performance	Valuations & Estate Group	Employee budgets transferred to Commercial cost centre - see below	(120,000)
	Implementation Team	The parking service has been split into two areas as part of the Watford2020 review. The net increase in costs is to fund projects. This is funded from the CPZ reserve	256,558
	General Property Administration	Increase in rental	(80,000)
	Investments Assets Outsourced	Net Increase in rental income, revised amounts include rent reviews, new occupation of vacant units and back rent on properties as revised in 2020/21	(604,267)
	Watford 2020 Project	As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	(244,507)
		Other Variances	(40,500)
		TOTAL	(832,716)
Corporate Strategy & Commas	Commercial	Budget transfer from Climate Change & Valuations & Estate Group to support the Councils commercial agenda	170,000
	Special Emergency - COVID19	Estimated recovery of loss of income due to COVID19 from the Government's income guarantee scheme	(1,000,000)
		Additional Local Authority support grant COVID19 - 3rd tranche of emergency funding	(150,131)
	Watford 2020 Project	As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	(17,127)
		TOTAL	(997,258)
Human Resources	Watford 2020 Project	As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	(45,500)
		TOTAL	(45,500)
Strategic Finance	Interest Earned	Reduction due to low market rates offered on short term investments	50,000
	Budget Strategy Items	The pay award for 2020/21 has been approved at 2.75%. The current budges have 2% factored in. The difference of 0.75% which will be allocated to the various services equates to £83k	82,875
	Watford 2020 Project	As part of the Watford2020 project, services identified budget savings which are offset against savings target under Service Transformation. The net effect of these changes has no impact on the overall budget **	(48,114)
		TOTAL	84,761
		GRAND TOTAL	(56,856)

STAFF VACANCIES

Service Area	Post	Date Vacant	FTE	Comments
Community & Environmental Services	Environmental Health Apprentice	New	1.0	Under Offer
	Support Officer	14/09/2018	0.5	Not currently advertised
	Business Compliance Officer	01/01/2019	0.3	
	Environmental Health Comp Officer		1.0	TBC
	Safeguarding Manager	New	0.4	Covered by Interim
	Museum Learning Officer	28/03/2020	0.6	Not currently advertised
	Enforcement Officer	05/07/2020	1.0	Currently Advertised
Corporate Strategy & Comms	Project Manager		1.0	Under Offer
Democracy & Governance	Head of Legal Services	30/04/2020	1.0	Covered by interim
	Principal Solicitor	08/11/2019	1.0	Covered by interim
	Senior Solicitor	Nov-15	1.0	Covered by interim
	Support Services Officer	30/06/2020	0.6	
Place Shaping	Housing Solutions Officer	31/07/2020	1.0	Not currently advertised
	Traffic Engineer	20/03/2020	1.0	Under Offer
	Apprentice Housing Sol. Officer	11/01/2019	1.0	Not currently advertised
	Housing Caseworker	30/06/2020	1.0	Not currently advertised
	Planning Officer	07/06/2019	1.0	Not currently advertised
	Technical Support Officer	30/06/2020	1.0	Not currently advertised
	Head of Planning Policy	07/06/2019	1.0	Not currently advertised
	Urban Design Officer	28/02/2019	1.0	Not currently advertised
	Head of Regeneration & Property	17/05/2020	1.0	Covered by Interim
Service Transformation	Facilities Manager	01/05/2018	1.0	Covered by Interim
	Head of Corporate Asset Management	30/11/2019	1.0	Covered by Interim
	Customer Service Advisor	15/02/2019	1.0	Not currently advertised
	Customer Service Advisor	10/03/2020	0.5	Not currently advertised
	Customer Service Advisor	30/06/2019	1.0	Not currently advertised
	Customer Service Advisor	18/04/2019	0.5	Not currently advertised
	Customer Service Centre Apprentice	02/04/2019	1.0	Not currently advertised
	Customer Service Centre Apprentice	22/07/2018	1.0	Not currently advertised
	Security & Infrastructure Mgr	29/02/2020	1.0	Not currently advertised
	Senior Surveyor	01/04/2019	1.0	Covered by Interim
			Total	27.4

CAPITAL INVESTMENT PROGRAMME – SUMMARY

Service Area	Service Provision	Latest Budget 2020/21 £	Forecast Outturn £	Actual to date £	Latest Budget 2021/22 £	Latest Budget 2022/23 £
Service Transformation	Customer Services	47,741	47,741	23,522	0	0
	ICT Shared Services	208,247	208,247	105,330	135,000	45,000
	ICT Client Services	619,568	619,568	(24,049)	765,000	485,000
	Corporate Asset Management	4,898,611	4,898,611	437,671	900,000	1,000,000
Community & Environmental	Waste & Recycling (inc Veolia)	1,468,712	1,468,712	3,765	1,106,260	100,230
	Parks & Open Spaces	1,678,119	1,678,119	889,247	435,000	325,000
	Cemeteries	988,160	988,160	77,302	0	0
	Leisure & Play	1,516,307	1,516,307	79,136	8,376,688	100,000
	Culture & Heritage	233,980	233,980	38,630	1,050,396	0
	Environmental Health	312,796	312,796	(330)	300,000	300,000
	Community Projects	690,000	690,000	22,909	824,250	0
	Commissioning	24,000	24,000	12,400	0	0
Place Shaping & Performance	Watford Business Park	4,100,734	4,100,734	213,506	9,100,000	3,000,000
	Watford Riverwell	51,165,904	51,165,904	381,398	2,855,003	8,878,000
	Housing	298,002	298,002	12,270	50,000	50,000
	Transport & Infrastructure	2,194,179	2,194,179	1,376,373	5,400,000	1,300,000
	Development Control	80,000	80,000	0	0	0
	Property Investment Board	13,342	13,342	(57,339)	50,000	0
	Property Management	53,070,232	54,075,307	795,800	19,220,000	0
Corporate Strategy & Communications	Corporate Communications	0	0	0	25,000	0
Strategic Finance	Capital Support Services	679,470	679,470	28,899	680,740	682,020
	Business Systems	0	0	0	0	0
	West Herts Crematorium	0	0	166,093	0	0
TOTAL CURRENT CAPITAL PROGRAMME		124,288,104	125,293,179	4,582,530	51,273,337	16,265,250

CAPITAL INVESTMENT PROGRAMME – DETAIL

Capital Scheme	Latest Budget 2020/21	Forecast Outturn	Forecast Variance	Actual 2020/21
	£	£	£	£
SERVICE TRANSFORMATION				
Customer Services				
CSI Project	47,741	47,741	0	23,522
ICT Shared Services				
ShS-Migration To The Cloud	66,000	66,000	0	0
ShS-Hardware Replacement Programme	142,247	142,247	0	105,330
ICT Client Services				
ICT-Hardware Replacement Programme	273,298	273,298	0	(24,149)
ICT-Business Application Upgrade	141,270	141,270	0	100
ICT-Project Management Provision	205,000	205,000	0	0
Corporate Asset Management				
Colosseum Refurbishment	3,818,611	3,818,611	0	146,539
Community Asset Review	350,000	350,000	0	0
Building Investment Programme	730,000	730,000	0	291,132
COMMUNITY & ENVIRONMENTAL				
Waste & Recycling (inc Veolia)				
Replacement Domestic Bins	42,185	42,185	0	3,765
Veolia Contract Fleet Requirements	1,256,777	1,256,777	0	0
Recycling Boxes	36,940	36,940	0	0
Veolia Capital Improvements	96,810	96,810	0	0
Additional Green Waste Bins	36,000	36,000	0	0
Parks & Open Spaces				
Farm Terrace Allotments	0	0	0	500
Callowland Allotment Enhancement	8,156	8,156	0	0
Whippendell Woods SSSI Enhancement	19,647	19,647	0	0
Green Spaces Strategy	256,116	256,116	0	93,514
Cassiobury Park HLF Project	33,853	33,853	0	44,529
Oxhey Park North Enhancements	4,500	4,500	0	0
Oxhey Park North	1,107,386	1,107,386	0	582,379
Tree Planting Programme	15,000	15,000	0	0
River Colne Restoration	19,224	19,224	0	6,500
Cassiobury Park Car Park Imps	0	0	0	(3,561)
Garston Park Improvements	171,132	171,132	0	165,386
Oxhey Park North Project Mgmt	43,105	43,105	0	0

Capital Scheme	Latest Budget 2020/21	Forecast Outturn	Forecast Variance	Actual 2020/21
	£	£	£	£
Cemeteries				
Cemetery Improvements	0	0	0	14,514
Cemetery Reprovision	141,000	141,000	0	0
North Watford Cemetery Imps	103,624	103,624	0	(1,800)
New Cemetery Provision	727,130	727,130	0	55,253
Vicarage Road Cemetery Feasibility Study	16,406	16,406	0	9,334
Leisure & Play				
Gaelic Football Relocation	38,558	38,558	0	0
Leisure Centres (SLM)	253,021	253,021	0	0
Watford Tennis Partnership	25,000	25,000	0	0
Woodside Sports Village	650,000	650,000	0	0
Cassiobury Park Croquet Club	37,625	37,625	0	6,568
Play Area Improvements	462,103	462,103	0	72,568
Lea Farm Recreation Improvements	50,000	50,000	0	0
Culture & Heritage				
Watford Museum HLF Matchfunding	0	0	0	38,630
Improvements Community Centres	13,980	13,980	0	0
Cultural Quarter Phase 1	10,000	10,000	0	0
Heritage Trail	110,000	110,000	0	0
Watford Market	100,000	100,000	0	0
Environmental Health				
Decent Homes Assistance	25,000	25,000	0	(19,182)
Private Sector Housing Renewal	200,000	200,000	0	0
Street Improvement Programme	87,796	87,796	0	18,852
Community Projects				
Cycle Hub	150,000	150,000	0	22,909
All Saints Churchyard Improvements	40,000	40,000	0	0
Paddock Road Depot Enhancements	500,000	500,000	0	0
Commissioning				
Departmental Vehicle Renewal	24,000	24,000	0	12,400
PLACE SHAPING & PERFORMANCE				
Watford Business Park				
Watford Business Park	700,734	700,734	0	145,698
Watford Business Park Phase 2	3,400,000	3,400,000	0	67,807

Capital Scheme	Latest Budget 2020/21	Forecast Outturn	Forecast Variance	Actual 2020/21
	£	£	£	£
Watford Riverwell				
Watford Riverwell Project	51,165,904	51,165,904	0	381,398
Campus-Client Side & Land Assembly	1,386,904	1,386,904	0	6,398
Campus-Equity-Infrastructure	(1,490,000)	(1,490,000)	0	375,000
Riverwell-Waterside Phase 1	1,221,000	1,221,000	0	0
Riverwell-Waterside Phase 2	2,933,000	2,933,000	0	0
Riverwell-Island Site	96,000	96,000	0	0
Riverwell-Waterside Phase 3	4,023,000	4,023,000	0	0
Riverwell-Car Park	36,478,000	36,478,000	0	0
Riverwell-Farm Terrace Allotments	4,731,000	4,731,000	0	0
Riverwell-School	1,557,000	1,557,000	0	0
Riverwell-Administration	230,000	230,000	0	0
Housing				
Private Sector Stock Condition	36,850	36,850	0	0
Retained Housing Stock	186,152	186,152	0	11,119
York House Boiler Replacement	75,000	75,000	0	1,151
Transport & Infrastructure				
Intro Electric Vehicle Charging	0	0	0	(12,000)
Public Realm (High Street)	4,479	4,479	0	(1,550)
Public Realm (Cl'dn Rd Phase III)	560,647	560,647	0	1,350,860
Transport App	30,425	30,425	0	0
St Albans Rd Improvement Works	300,000	300,000	0	49,745
CCTV Site Equipment	24,000	24,000	0	0
Watford Junction Masterplan	13,548	13,548	0	0
Watford 3D Planning Model	27,388	27,388	0	0
Public Realm (Watford Junct'n)	158,773	158,773	0	1,121
High St Phase 2 (St Mary's)	592,478	592,478	0	0
Upgrading/Resurfacing Car Parks	4,573	4,573	0	0
Match Funding Capital Projects	0	0	0	(3,863)
Watford Junction Cycle Pk Hub	7,110	7,110	0	0
Watford Cycle Hire Study	4,460	4,460	0	0
Cycle & Road Infrastructure Improvements	466,298	466,298	0	(7,941)
Development Control				
CIL Review	80,000	80,000	0	0

Capital Scheme	Latest Budget 2020/21	Forecast Outturn	Forecast Variance	Actual 2020/21
	£	£	£	£
Property Investment Board				
PIB Investment Strategy	13,342	13,342	0	(57,339)
Property Management				
New Market	4,365	4,365	0	0
Redevelopment Town Hall	8,937,463	8,937,463	0	28,052
Cultural Hub Phase 1 Works	0	0	0	23,412
Charter Place	0	0	0	1,869
Temp Housing Accommodation	4,007,803	4,007,803	0	737,933
Social Rented Housing	1,000,000	1,000,000	0	0
Accelerating Housing Provision	1,215,601	1,215,601	0	4,522
Land Transfer - Croxley View Phase 2	3,000,000	3,000,000	0	0
Land Transfer - Rear Of High St	760,000	760,000	0	0
Land Transfer - Scheme A	605,000	605,000	0	0
Land Transfer - Scheme B	530,000	530,000	0	0
Loan to Hart Homes WDLLP	17,200,000	17,200,000	0	0
Loan to Hart Homes WDLTD	9,800,000	9,800,000	0	0
Hart Homes Development	0	0	0	12
Places For People Scheme	1,000,000	1,000,000	0	0
Pyramid Site	5,000,000	5,000,000	0	0
Scenery Store Redevelopment	10,000	10,000	0	0
Infill Sites (LEP funded)	0	1,005,075	1,005,075	0
STRATEGIC FINANCE				
Capital Support Services				
Support Services	552,470	552,470	0	0
Major Projects - FBP and QS	127,000	127,000	0	28,899
Business Systems				
West Herts Crem				
West Herts Crem Bedmond Road	0	0	0	166,093
TOTAL CURRENT CAPITAL PROGRAMME	124,288,104	125,293,179	1,005,075	4,582,530

CAPITAL INVESTMENT PROGRAMME – FUNDING

FUNDING TYPE	Forecast Outturn 2020/21	Budget 2021/22	Budget 2022/23
	£	£	£
Grants & Contributions	2,793,823	4,750,000	0
Reserves	497,039	0	0
Capital Receipts (PIB & non PIB)	6,559,500	3,402,000	6,643,000
Section 106 & CIL Contributions	11,570	3,000,000	0
Local Enterprise Partnership Loan	0	1,250,000	0
Borrowing (Internal & External)	115,431,247	38,871,337	9,622,250
TOTAL CAPITAL FUNDING APPLIED	125,293,179	51,273,337	16,265,250

KEY BUDGETARY RISKS

No.	Type of Consequence	Comment	Likelihood	Impact	Overall Score
1	The Medium term financial position worsens.	In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register. <i>The financial impact of COVID 19 will place a burden on the Council's Revenue account through loss of income and additional expenditure.</i>	3	2	6
2	Revenue balances insufficient to meet estimate pay award increases	The medium term planning period takes into account the pay increases for the period - The Council's 3 year Medium term Financial Strategy includes forecast pay awards for the next three years. <i>Unions have submitted a pay claim in excess of this amount. Current offer is 2.75% whilst budget allows for 2%. This is an increase of £83k and included in the forecast outturn</i>	3	2	6
3	Revenue balances insufficient to meet other inflationary increases	Other than contractual agreements, budgets have been cash limited where possible. <i>Inflation currently running below assumptions.</i>	2	2	4
4	Interest rates resulting in significant variations in estimated interest income	The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy following the EU referendum continues to place uncertainty on the investment strategy. <i>Interest rates are extremely low a the bank base rate is currently 0.10.</i>	3	3	9
5	Inaccurate estimates of fees and charges income	See Key Income Streams are shown in the latest Finance Digest. <i>The financial impact of COVID 19 will place a burden on the Council's Revenue account through loss of income . Govet guarntee income scheme will cover 70% of losses on Fees & Charges</i>	3	3	9
6	Revenue balances insufficient to meet loss of partial exemption for VAT	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs.	1	3	3
7	Major emergency	Major Emergency requires funds beyond Bellwin scheme and causes serious drain on balances. <i>The financial impact of COVID 19 will place a burden on the Council's Revenue account through loss of income and additional expenditure.</i>	3	3	9
8	The estimated cost reductions and additional income gains are not achieved	Savings identified are monitored as part of the monthly budget monitoring process. <i>Some of these may not materialise as resources are diverted away to concentrate on the Council's Covid 19 recovery plan</i>	3	3	9
9	The income received from Commercial rents decreases	The rental income received from the Council's property portfolio is a significant proportion of the total income the Council receives. <i>The financial impact of COVID 19 places a burden on the Council's property income. At present there is an estimated loss of £1.7m. The Government's proposed Income guarantee grant scheme will not cover property rents</i>	3	3	9
10	The amount of government grant is adversely affected	The provisional grant settlement has been factored into the MTFS. <i>During the Covid 19 crisis, the Council has received £498,000 for the Council Tax hardship fund and £11.4M for Small Business and Retail, Hospitality and Leisure Grants. A further Discretionary Grants Fund of up to 5% of the £11.4m is to be received to provide grants to small businesses with ongoing fixed property-related costs who were not eligible for Small Business Grant Fund (SBGF) or the Retail Hospitality and Leisure Grant Fund (RHLGF).</i>	2	3	6
11	Fluctuations in Business Rates Retention	The Council is legally obliged to cover the first 7.5% loss on its pre determined baseline level. The Council is currently in a safety net position. <i>From April 2020 the system was due to be subject to reset and increase to 75% retention. This was originally postpone to 2021/22 and has been further postponed. Impact of Covid 19 on collection fund will impact in 2021/22</i>	3	3	9
1= VERY LOW RISK 4 = VERY HIGH RISK					
			Likelihood	Impact	Overall Score
			very low risk	1	1
			low risk	2	2
			high risk	3	3
			very high risk	4	4
					16

AGED DEBT ANALYSIS

Invoices outstanding from 1st August 2019 to 31st July 2020								
Service Area	Description	Invoices outstanding by age of debt						
		0 - 1	2 - 3	4 - 6	7 - 9	10 - 12	Over 12	Grand Total
Community & Environmental	Community and Customer Service	169,150	88,487	88,457	42,475	15,745	16,460	420,773
	Env Services-Premises Licence	4,550	2,240	2,460	2,640	3,770	12,525	28,185
	Environmental Health	22,976	9,286	0	234	5,884	1,471	39,851
Democracy and Governance	Democracy and Governance	28,600	2,100	0	750	2,000	98	33,548
Place, Shaping & Performance	Housing	36,196	19,941	23,597	28	2,822	26,383	108,966
	Property (exc. Commercial rent)	535,411	18,050	598	186	344	398	554,987
	Property - Commercial Rents	5,153	34,477	4,992	5,651	0	728	51,000
	Property - Parking Spaces	0	1,600	0	600	600	0	2,801
	Planning (exc. Inspection fees)	68,911	803	0	150	6,436	6,398	82,697
	Planning - Inspection Fees	3,966	980	0	0	0	799	5,744
Human Resources		8,711	0	0	0	0	963	9,674
Strategic Finance		0	0	0	0	0	5,113	5,113
Grand Total		883,623	177,963	120,103	52,714	37,600	71,335	1,343,338
Percentage of Amount Outstanding		65.78%	13.25%	8.94%	3.92%	2.80%	5.31%	100.00%

REVENUE RESERVE BALANCES

Description	Balance at 1 April £000	Movement 2020/21 £000	Balance at 31 March £000	Purpose
<u>Revenue Reserves</u>				
Area Based Grant	(86)	86	(0)	Balance transferred to Recovery Fund
Budget Carry Forward	(1,934)	1,934	0	Budgets carried forward from prior years
Car Parking Zones	(698)	257	(441)	Ring fenced for parking projects
Charter Place Tenants	(93)	93	(0)	Balance transferred to Recovery Fund
Climate Change	(48)	48	0	Balance transferred to Recovery Fund
Collection Fund	(297)	0	(297)	Equalisation fund to smooth impact of surplus / deficit
Crematorium	(150)	0	(150)	Funding repairs and maintenance
Economic Impact Reserve	(2,979)	1,336	(1,643)	Provide resources to offset economic downturn
Housing Benefit Subsidy	(1,832)	0	(1,832)	Provision if Dept for Work & Pensions claw back funds
Housing Planning Delivery Grant	(266)	0	(266)	Improve planning outcomes and delivery of housing
Invest to Save	(689)	689	0	Balance transferred to Recovery Fund
Le Marie Centre Repairs	(11)	11	0	Balance transferred to Recovery Fund
Leisure Structured Maintenance	(423)	173	(250)	£173k Balance transferred to Recovery Fund
Local Development Framework	(178)	0	(178)	Support local plan production and inspection
Multi-Storey Car Park Repair	(181)	0	(181)	Funding major structural works
Parks, Waste & Street Strategy	(60)	60	0	Balance transferred to Recovery Fund
Pension Funding	(2,248)	0	(2,248)	Reduction of pension deficit
Performance Reward Grant	(28)	28	(0)	Balance transferred to Recovery Fund
Project and Programme Management	(251)	40	(211)	Support major project work
Rent Deposit Guarantee Scheme	(100)	0	(100)	Assist in providing homelessness accommodation
Riverwell Project	(7,334)	0	(7,334)	To cover any guarantees, repayments of outstanding loans and fund future investment.
Weekly Collection Support Grant	(30)	0	(30)	Supporting weekly collection of waste
Recovery Fund	0	(1,188)	(1,188)	To support the recovery process for additional costs due to COVID19
	(19,916)	3,567	(16,349)	
General Fund Working Balance	(2,000)	0	(2,000)	Prudent balance
Total Revenue Reserves	(21,916)	3,567	(18,349)	

GLOSSARY OF TERMS

<i>Accounting period</i>	The timescale during which accounts are prepared or reported on.
<i>'Accounts Payable'</i>	The section and/or system within the Council that is responsible for paying the Council's creditors and invoices raised against the Council.
<i>'Accounts Receivable'</i>	The section and/or system within the Council that is responsible for invoicing and collection from the Council's debtors and for invoices raised by the Council.
<i>Accrual</i>	The recording within the accounts of the Council the cost of goods or services received and for which an invoice has been received but for which payment has not yet been made.
<i>Accrual accounting</i>	The practice of accounting for goods and services when they are received/provided rather than when they are paid for/payment received.
<i>Asset</i>	A present, economic resource of the Council to which it has a right or other type of access that other individuals or organisations do not have.
<i>Balances</i>	A figure representing the difference between credits and debits in an account; the amount of money held in an account. Also known as 'financial reserves'.
<i>Base budget</i>	Estimate of the amount required to provide services at current levels. Can also be referred to as 'rollover budget'.
<i>Budget Monitoring</i>	The process comparing of actual income and expenditure against budget; used to support budgetary control.
<i>Business Rates/NDR*</i>	Rates are payable on non-domestic property including libraries, offices, schools. The level of business rates is set by the Government and collected by the District Councils on their behalf. The money is then re-allocated to authorities in accordance with resident population as part of the annual financial settlement.
<i>Capital Asset</i>	Capital or Fixed assets are long-term resources, such as plant, equipment and buildings.
<i>Capital Charges</i>	A charge to services to reflect the cost of fixed assets used in the provision of those services
<i>Capital expenditure</i>	Expenditure on items that create an asset which has a long-term benefit of more than one year.
<i>Carry forward [of budget]</i>	Budgets unspent in a prior year that have (once approved) been added to the current year budget. Strict control on 'carried forwards' apply.

<i>Chart of accounts</i>	The hierarchy of recording income and expenditure within the Council's accounts. The main distinctions are between fund e.g. County fund, Pension Fund; objective e.g. service or cost centre; subjective e.g. the classification of expenditure between salaries, equipment, stationery, fuel costs etc.
<i>Commitment</i>	A commitment to spend occurs when an order is raised
<i>Cost centre</i>	A collection of subjective codes (qv) linked to a particular service or sub-service area.
<i>Creditor</i>	A person or company to whom the Council owes money.
<i>Debtor</i>	A person or company who owes money to the Council
<i>Depreciation</i>	The accounting method of amortising the value of an asset over its useful life
<i>Ear marking</i>	Setting aside for specific purposes
<i>Financial Regulations</i>	Rules of financial management that apply to all officers and members of the Council. These can be found on the intranet.
<i>Financial Year</i>	Period of twelve months commencing on 1 April and ending 31 March the following year.
<i>Forecast Outturn</i>	A projection of anticipated expenditure incurred and income received to provide an estimate of the service position at the end of the year compared to the planned budget.
<i>Funding</i>	Source of income to support service expenditure – can be capital or revenue
<i>General Fund</i>	The main revenue account of the Council through which day to day transactions are conducted.
<i>Journal</i>	The transfer of income or expenditure from one ledger code to another.
<i>Medium Term Financial [Plan] [Strategy]</i>	The Council's plan for the management of its resources during the next 3 years, which remains under a rolling review and links to the service planning process.
<i>Liability</i>	The Council's financial debt or obligations that arise during the course of its business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services.

<i>NDR</i>	Non-Domestic Rates – see business rates (<i>qv</i>)
<i>Profile</i>	A term used to describe the pattern of expenditure or income that is expected to occur over a period of time
<i>[The] Prudential code</i>	The authority which enables the Council to set its own borrowing limits as part of the budget making processes.
<i>Reserves</i>	Amounts set aside for general contingencies and to provide for working balances, or can be earmarked for specific future expenditure.
<i>Resources</i>	Includes cash, staff, equipment, property, stocks, etc.
<i>Revenue expenditure</i>	Expenditure on ‘day-to-day’ items required to support the running of the Council services
<i>Subjective Code</i>	A code describing expenditure or income by type e.g. salaries costs, premises costs. Can also be called “accounting code”
<i>Ultra Vires</i>	A Latin term meaning ‘beyond the powers’.
<i>Variance</i>	Difference between budget and actual income or expenditure. May be favourable (more income or lower spend than budgeted) or unfavourable/adverse (less income or more spend than budgeted)
<i>Virement</i>	Formal transfer of funds from one budget to another. Does not change the Council’s overall budget.

Agenda Item 5

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Thursday, 10 September 2020

Report author: Section Head - Financial Planning

Title: Financial Planning - budget setting process

1.0 Summary

- 1.1 The purpose of this report is to notify the Committee of the process whereby the Council will determine its three-year medium-term financial strategy (MTFS) for 2021-2024, the related service plans, and the allocation of financial resources to achieve them.

2.0 Risks

2.1

Nature of Risk	Consequence	Suggested Control Measures	Response (tolerate, treat terminate, transfer)	Risk Rating (combination of likelihood and impact)
Failure to agree the Council Plan and Service Plans for implementation from 1 April 2021 and failure to meet statutory deadline for setting a legal budget	The Council does not have a Council Plan for 2021/22 and does not legally set a budget	Revert to previous Corporate Plan and MTFS	Treat	4

3.0 Recommendations

- 3.1 To consider and note the 2020/21 financial planning - budget setting process as shown in Appendix 1.

Further information:

Nigel Pollard

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Report approved by: Alison Scott – Director of Finance

4.0 Detailed proposal

4.1 Each year the Council is required to set a realistic, achievable in-year budget and indicative budgets for the following two years. Overall responsibility for the budget setting process is the responsibility of the Director of Finance. (Shared services)

Council Plan

4.2 On 14 July 2020, Council adopted the new Council Plan 2020-24 and Delivery Plan 2020-22.

4.3 Our new Council Plan set out our aspirations for both the council and the town we serve. It is forward-looking, high level and outward facing, with an emphasis on outcome focused commitments. The plan demonstrates our role as leader of place and how we will continue to build on our strategic and operational excellence.

Council Plan themes are:

- A council that serves our residents
- A thriving, diverse and creative town
- A healthy and happy town

4.4 The delivery of these themes is underpinned by the proposed principles of: excellence; promotion; impact; enterprise; leadership and caring.

4.5 The Delivery Plan 2020-22 sets out how the council will focus our work to bring the Council Plan to life, making sure we deliver what we said we would over the next 18 months. Under each theme and commitment, we set out our key priority areas of actions, which we are focused on achieving by 2022. The Delivery Plan will be monitored and a report on progress will be reported to Cabinet quarterly, and, annually, we will prepare a report for residents, businesses and partners. The actions in the Delivery Plan will be cascaded through service plans, team business plans through to individual objectives.

Service Plans

4.6 Officers will prepare service plans based on the Delivery Plan. The plans will include:-

- The purpose of the Service: its role within the organisation and how it contributes to the Council Plan
- Service delivery: an overview of the services they provide and how they will measure success for 2020-22
- Service resources: what the Service has to deliver its plan - staff structure and budget
- Delivery: Projects / key areas of work to be delivered across 2020-22 and how these contribute to delivery of the Council Plan

- Dependencies: Cross service projects / key areas of work Service is supporting

Financial Plan - Revenue

- 4.7 The Local Government and Finance Act 2012 brought in fundamental changes to the way in which local government is financed. These changes are designed to stimulate growth but they also transfer more financial risk from central government to local government.
- 4.8 With Government funding reduced and an increasing reliance on generating additional business rates income, then it becomes important for the Council to manage its budgets prudently and services need to continually investigate new initiatives to generate additional sustainable revenue income whilst also looking to realise opportunities to reduce costs.
- 4.9 The Council prepares and monitors a rolling three-year Medium Term Financial Strategy (MTFS) consisting of a working budget for the current year and indicative budgets for the following years. This contains budget estimates calculated at a detailed level. The latest budget monitoring report (at end of July – Period 4) is elsewhere on this agenda.
- 4.10 Officers will convert the previous indicative budget for 2021/22 into a detailed plan. They will also add a ‘new’ third year indicative budget to complete the three-year plan for 2021/22 to 2023/24. Current plans include annual council tax increases of 1.99% for a Band D equivalent in each year of the MTFS.

Capital Investment Programme

- 4.11 The finance digest’s provide the current position on progress against the 2020/21 capital investment programme and the resources available for future investment.
- 4.12 Officers will carry out option appraisals on the future capital investment schemes. Those schemes that are deemed to be as ‘invest to save’ are likely to be regarded more favourably than those requiring growth in revenue expenditure.

5.0 Implications

5.1 Financial

- 5.1.1 There are no changes to the budget already agreed by Members as a result of this report.

5.2 Legal Issues (Monitoring Officer)

- 5.2.1 The Council must set its budget before 11 March 2021 in accordance with Section 32 (10) of the Local Government Finance Act 1992.

5.2.2 The Council's Chief Financial Officer (Shared Director of Finance) has a statutory duty to report to the Council if it is likely to incur expenditure that is unlawful or likely to exceed its resources.

5.2.3 The Localism Act includes powers to allow local residents to veto through a referendum council tax rises that propose to exceed the limit imposed by Central Government.

5.3 Equalities, Human Rights and Data Protection

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected

5.3.2 Having had regard to the council's obligations under s149, it is considered that there are no equalities or Human Rights implications.

5.3.3 Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

5.4 Staffing

5.4.1 There are no staffing implications arising from this report.

5.5 Accommodation

5.5.1 There are no accommodation implications arising from this report.

5.6 Community Safety/Crime and Disorder

5.6.1 There are no community safety/crime and disorder implications arising from this report.

5.7 Sustainability

5.7.1 There are no sustainability implications arising from this report.

Appendices

- Appendix 1 – Financial Planning - Budget setting Process 2121- 2024
- Appendix 2 – Salary Build
- Appendix 3 - Budget responsibilities
- Appendix 4 - Timetable

Background papers

- None

Watford Borough Council – Financial Planning - Budget Process 2021/22 to 2023/24 Medium Term Financial Strategy

Background

Each year the Council is required to set a realistic, achievable budget for the forthcoming year and indicative budgets for the following two years. The Director of Finance has the overall responsibility for the budget setting process.

These instructions, along with the timetable, are designed to be followed to ensure that the Director of Finance is able to present to Council at its meeting in January a sustainable budget.

The Director of Finance will also present a revised budget for the current year (2020/21) to Council for approval incorporating any changes made to the budgets since the latest budget was agreed in July following the previous outturn report and changes reflecting the financial impact of Covid 19.

With the risks associated with the income on property investments and delivery of the Mayor's priorities, it is extremely important for the Council to manage its budgets prudently with the emphasis on generating additional sustainable revenue income and reducing costs.

Revenue Budget Preparation

Each year the council presents a budget. The first stage of preparation is to create the base budget (also known as the standstill budget) which represents the budget required for the Council to continue providing its services as previously agreed.

Base budget 2021/22

The base budget for council will be constructed as follows:

Original base budget 2020/21
less (-) add (+)
other opening budget adjustments
add (+)
inflation, salary increments, and other salary adjustments
less (-)
savings
add (+)
growth
=

Base budget 2021/22

Employees

The process for the 2021/22 revenue budget preparation will commence with the compilation of the salary estimates. Budgets will be prepared for 3 years to cover the MTFS period.

HM Treasury are forecasting RPI to average at 2.7% over 2021 and remain over 3% to 2024. A 3% year on year increase has been assumed however, this is subject to change depending on inflation rates nearer the time for budget setting.

A 1% increase is approx. equivalent to an additional budget pressure of £110k.

The employer's pension contributions from April 2020 of 18.2% will be built into the financial projections. The National Insurance contributions from April 2020 of 13.8% will be built into the financial projections.

To start the process an establishment spreadsheet detailing all posts in service areas will be compiled by Finance & HR and will then be distributed to all Heads of Service. **Appendix 2** shows the guidance on salary budget build.

Group Heads & Service Heads will be responsible for ensuring the establishment sheets are correct. To do this they must;

1. Confirm posts are in the correct cost centre.
2. Confirm the hours for each post are correct.
3. Confirm any posts that are subject to deletion.
4. Confirm that posts are on the correct pay banding.
5. Any posts that need to be added.(This must be supported by the relevant democratic process)

Note: these will be certified as correct as at 1 October 2020, but Heads of Service should also inform Finance and HR of any known changes between 1 October 2020 and 31 March 2021 (eg: retirements, new starters).

Other Expenditure/Income

Finance staff will assist in preparing other direct income and expenditure in consultation with Service Heads. As in past years, a cash freeze will be applied to detailed budgets unless there is a contractual agreement (e.g. in fuel prices) to the contrary or there are known increases or demographic pressures – i.e.: unavoidable growth.

Growth & Savings and New Capital Bids

Forms will be sent out and once completed these need to be returned to Finance, in order to be considered for inclusion in the MTFS. Services should ensure that their Portfolio Holder is aware of any proposed growth bids and any savings that would result in a cessation of or a reduction in provision of services.

Fees and Charges

To keep pace with inflation, it is anticipated that a **3%** increase for 2021/22 will be factored into the budgets for all discretionary fees and charges; i.e.: those that are not set by statute.

Group/Heads of Service are to review these increases in the light of their effect on demand, affordability and vulnerability and are to inform Finance if this is considered an unreasonable uplift – this is to be supported by a reasoned argument.

Note any reduced uplift will result in a pressure elsewhere and the Council's stated policy is extra income before service cuts. If services are seeking a reduction to the existing income budget from fees and charges, then they are to submit a growth bid in the normal manner. Services are also required to inform Finance if the volume of transactions is likely to change.

Finance will collate all fees and charges and produce a report to Leadership Board November. All fees and charges should be discussed with the relevant portfolio holder prior to final submission.

Capital Programme

The Council does not have sufficient funding in place to fund the current capital programme, therefore the Council will need to borrow, either internally from its cash reserves or from external sources to fund any cash flow gap – this would only be until the anticipated returns are realised on the major investment projects. This will become clearer as the budget process progresses. Any capital bid should demonstrate how it will benefit the council financially and therefore should include a cost of capital (borrowing) in its appraisal.

Capital Budget Preparation

Forms requesting new capital schemes will be sent out by Finance and once completed these need to be returned; the prioritising of schemes against available capital resources will be undertaken by the Leadership Board.

Appendix 3 shows the budget responsibilities during the budget setting process and the key dates are shown at **Appendix 4**.

Appendix 2

Establishments and salary build spreadsheets

The process for 2021/22 budget build

1. The salary build spreadsheet is based on an agreed establishment for the Council.
2. This spreadsheet will be initiated by Finance and then cross-checked with HR, and the structure charts to ensure all systems are linked and using a common set of establishment data. Finally the HR/Finance version will be sent to Group /Heads of Service for them to firstly agree the data and secondly for them to 'take ownership' of the establishments in their own area. This will be 'as at 1 October 2020'.
3. Once the establishment is agreed and confirmed by the services as correct, Finance will commence the salary build based on this establishment. The salary build process is detailed below.
4. HR will endeavour to ensure that the establishment and incumbents are kept up to date through use of the request-to-fill (rtf) and request-to-vary (rtv) forms.

Detailed Process

Activity	Completed by
Development of the base establishment spreadsheet. To include: <ul style="list-style-type: none">• Established post number• FTE• name, employee number, Grade and SCP	FM's
Review of base establishment including comparison with structure charts	HR BP's/FM's
Review of establishment base data with services. Services to agree establishment, grades and SCPs. Also to inform of any known changes to occur between 1 Oct 20 and 31 Mar 21 (e.g.: retirements, staff joining or leaving)	GHoS/HoS/HR BPs/FMs
Sign off of establishment by GHoS	GHoS
Salary build based on actual data for filled posts, mid-point for vacant posts, known allowances and MFS. Will also use agreed cost of living uplift (1%), incremental drift and statutory on-costs (superannuation and ERNIC).	FM's
Salary spreadsheets sent out to GHoS for checking and confirmation.	GHoS
Salaries incorporated into the base budget.	FM's

Budget Responsibilities

Services will provide

Other Employee Costs

Premises (not BR)

Transport (not lump sums)

Supplies and Services

Agency, Contracted and Transfer Payments

External Income

Capital Bids

Finance will provide

Salaries (including

National Insurance

Local Weighting

Business Rates

Essential Car Lump Sum

Capital Charges

Timetable - Key dates

w/c 14 September	Growth, savings and capital projects forms are sent to services
w/c 21 September	Employee spreadsheets sent to services, who are to confirm posts/fte's/ hours/SCPs Fees & Charges forms sent to services
By nlt 12 October	Return of growth/ savings/ new capital projects to finance Return of employee spreadsheets to finance
By nlt 19 October	Return of completed fees & charges
23 November	LB considers growth, savings and new/updated capital projects. LB considers detailed fees & charges proposals
9 December	LB to consider and sign off_detailed revenue/capital estimates and fees & charges
Prior to Christmas break	Portfolio Holders to agree revenue & capital estimates: fees & charges; use of reserves for sustainable budget
12 January 2021	Finance Scrutiny Committee consider detailed revenue and capital estimates including growth/ savings; fees & charges; Government funding, available reserves & inviting the Finance scrutiny Committee's recommendation on Council Tax
23 January 2021	Council consider/approve Budgets and Council Tax
23 February	Functions Committee sets 2021/22 Council Tax and precepts

LB = Leadership Board

Part A

Report to: Finance Scrutiny Committee

Date of meeting: 10 September 2020

Report author: Interim Head of Regeneration & Property

Title: Croxley Business Park – Update Report

1.0 Summary

- 1.1 This report provides an over view of the current position in regard to the financial performance of Croxley Business Park (The Park) over the course of the last year, letting activity, the impact of Covid 19 and lockdown and the ongoing development and asset management initiatives that will assist in ensuring The Park remains a relevant and attractive location and setting for local and national occupiers. The report was presented to Cabinet on 7 September 2020.
- 1.2 Whilst Covid 19 has had a significant short term impact on some tenants leading to a number of requests for rent concessions, the Council, through its advisors have taken an active approach in negotiating suitable deferment terms, respective of the tenant's financial status and importance to The Park as well as the Council's financial position.
- 1.3 At the time of acquisition, Grant Thornton prepared a financial model to support its viability. A new model has recently been produced by Grant Thornton to enable accurate forecasting and scenario planning. This will be operational from Q3 this year. As part of the work to create this operational model, the original assumptions (relating to re-letting, voids, rent incentives and marketing) have been found to remain accurate. Therefore the original expected income is consistent with the contracted income as set out in the table below at paragraph 20.
- 1.4 The development of Building 1 remains on track for completion in Spring 2021 and The Park has had recent success in attracting three new tenants with lettings totalling nearly 35,000 sq ft. Such success will necessitate that further vacant suites are brought forward for refurbishment and that the current void rate for the office component compares favourably with other business parks of similar stature and scale.

2.0 Recommendation

- 2.1 That Finance Scrutiny Committee notes the contents of this report.

3.0 Introduction

- 3.1 In July 2019 Watford Borough Council acquired a 40 year head lease in The Park structured as an “income strip” deal with the Council having the option to acquire the freehold of the Park at the end of the 40 year term for £10 from Croxley 1 Limited and Croxley 2 Limited as nominees of Croxley Master Trustee Limited, trustee of Croxley Master Property Unit Trust (the current freeholder).
- 3.2 The Council receives the full passing rental income from occupational tenants on the Park in return for paying a rent of £9.2m per annum which was indexed annually linked to RPI (based on June RPI figures), subject to a collar of 0% (minimum increase) and a cap (maximum increase) of 5%. The Council, in addition to retaining the profit rent, is responsible for all rental risk and planned and preventative maintenance (PPM).
- 3.3 Columbia Threadneedle Investments (CTi), the investment and asset management company who were the vendors of the Park, also made a payment to the Council of £92m to cover rent top ups and Planned and Preventative Maintenance. This payment was broken down as follows; £24m of this sum represented a rent top up for the first three years from purchase to cover any rent free periods on occupational leases whilst the £68m balance of the sum has been set aside to be used for planned and preventative maintenance over the term of the 40 year lease. This funding will be required in later years so has been invested to generate returns for the Council in the interim period.

4.0 Croxley Business Park

- 4.1 The Park adjoins and compliments the Western Gateway core policy area of Watford Borough and the 67 acre Watford Business Park (which the Council owns the freehold of). The Park sits in 75 acre parkland and the space provided includes 510,000 sq. ft. of office accommodation with a further 85,000 sq. ft. in the course of construction (which is being funded by CTi) and 189,000 sq. ft. of industrial space. Additional amenity space comprising circa 15,000 sq. ft. has been developed and funded by CTi in 2019, providing a gym, café and meeting space for 200 people which aids in tenant attraction and retention as well as being a useful facility to have on site.

- 4.2 The office accommodation that dominates the Park is provided in 9 standalone buildings which are let to a variety of tenants. Most buildings contain multi-let tenants apart from one. The Park is home to around 60 businesses including corporate occupiers such as Smith & Nephew, Kodak, Howden Joinery, Medtronic, Corona Energy, Glenmark Pharmaceuticals and Regus (the serviced office provider).
- 4.3 The industrial accommodation consists of industrial and warehouse accommodation totalling 189,000 sq. ft, contained in four separate blocks and split into 25 units the majority of which are under 8,000 sq. ft.
- 4.4 The Park usually has over 2,400 people on site and whilst this reduced to 100 in the depths of Covid lockdown, the current level is c400 with the expectation that this number will ramp up in September as schools reopen. The onsite facilities will also be reopening in September and the managing agents have put in place appropriate return to work plans and offered guidance and advice to occupiers on the Park.
- 4.5 Despite Covid 19 and the impact of lockdown, the Park has had success in attracting 3 businesses (all new to Watford) in the last 6 months, and fitting out works on c35,000 sq ft is currently underway in advance of their occupation.
- 4.6 Vibrant Foods, a leading producer of ethnic foods, has taken 14,230 sq ft on a 10 year lease on the ground floor of Croxley Park's Building 3. CSL Dualcom Limited, a provider of connectivity solutions, has also taken 10,045 sq ft of space on the second floor of Building 4 on an 11 year lease. Both lettings achieving a rent in the region of £30.00 per sq ft. Finally, medical devices supplier Clinisupplies Limited, is moving into 10,147 sq ft on the first floor of the Park's 1 Blackmoor Lane property on an 11 year term. The businesses are all new to the Park.
- 4.7 Proposals for further refurbishment of vacant floorspace are likely to come forward as a result, to ensure there is a range of suitable office product available for immediate occupation by tenants, in either any internal or external relocations.

5.0 **Building 1**

- 5.1 CTi have an ongoing responsibility to deliver the completion of Building 1 (comprising c85,000 sq ft of contemporary offices) in Spring 2021. They continue to provide an asset advisory service linking in with and instructing the agents and property management and professional teams.

- 5.2 During early lockdown only a limited amount of construction works was able to be undertaken on site, in order to make the site safe. However as restrictions were lifted, construction work accelerated and at this stage there is no expected delay to completion of the development in Spring 2021.
- 5.3 CTi, as well as having the responsibility of managing the construction of Building 1 take a lead on managing the letting of the development and a team of letting agents have been appointed. In addition to the Park's usual agents of Stimpsons and Bray Fox Smith, CBRE have been appointed to ensure the property is fully exposed to a national occupier audience utilising their connections with major UK and global corporates.
- 5.4 During the course of late 2020 and early 2021, the marketing activities for this development will be developed and enacted with a major push in the immediate pre and post completion period. Enquiries are generally quiet at present due to Covid and the usual summer lull, however the Park's benefits as a spacious and edge of town location is likely to be a positive benefit in such a campaign. It may well be the sort of desired location away from city centres that some occupiers want in a 'Covid world'.

6.0 Financial Viability

- 6.1 As noted above, the Council now has an operational cashflow model, built by Grant Thornton in conjunction with Council officers and Lambert Smith Hampton Investment Management (LSHIM). This will enable accurate forecasting in the future and scenario planning as required.

The current position as at Quarter 2 is shown below.

As noted in the summary, the original assumptions made at the point of acquisition remain correct. Therefore the contracted income figure reflects expected income required by the Council. Contracted income is the rent on the lease for each tenancy and ignores any rent free periods the tenants may be on at the quarter day. Demanded rent allows for rent free periods and does not include rent where a tenant is in a rent free period. In the current conditions, demanded rent is higher than contracted at the time of reporting as rent is being demanded on a monthly basis (in some cases) and in some cases higher to allow for rent concessions made in March and other requests from tenants, for example to be invoiced a larger amount in advance. In order to establish the extent to which the investment is operating at the expected levels, the quarterly rent received compared to quarterly contracted income shows a difference of £372,703.

Planned and preventative maintenance (PPM) figures are excluded from the calculation of net income because the top-up fund provided covers this cost.

Croxley Park	Q2 2020	Q1 2020	Change
Annual Contracted Income	£12,138,176	£11,827,478	£310,698
Quarterly Contracted Income	£3,034,544	£2,956,869	£77,675
Quarterly Demanded Rent	£3,535,917	£2,640,263	£895,654
Quarterly Received Rent	£2,661,841	£2,398,997	£262,843
Vacancy (% by sq ft excluding Building 1)	17%	14%	+3%
Aged Debt (90 days plus)	£1,300,498	£122,960	£1,177,518
PPM Costs	£123,730	£358,825	£235,095
Ground Rent	£2,225,000	£2,225,000	£-
Net Income	£436,841	£173,997	£262,844

LSHIM provide regular updates post quarter rent day and the table below highlights the progress made in the 6 week period after the June quarter day. It should be noted that 4.62% of rents are on agreed monthly repayment terms, ie not quarterly. LSHIM undertake similar investment and asset management mandates for other private and public sector clients. The

information provided by LSHIM suggests that the rent collection data of over 75% rent collected at the 42 day point is close to and slightly above the average of 5 comparator funds.

Rent & Service Charge Collection Rates post June Quarter Day

	Gross Rent Demanded	% Collected	Gross Service Charge Demanded	% Collected
26 th June	£2,595,456	28.09%	£700,227	27.03%
7 Days	£2,595,456	36.74%	£700,227	33.97%
14 Days	£2,595,456	64.73%	£700,227	55.44%
21 Days	£2,595,456	67.00%	£700,227	57.09%
28 Days	£2,595,456	67.88%	£700,227	58.22%
35 Days	£2,595,456	73.14%	£700,227	63.16%
42 Days	£2,595,456	75.57%	£700,227	64.51%

7.0 Impact of Coronavirus

- 7.1 The coronavirus outbreak forced most of the working population and certainly the majority of the office based sectors to work from home over the last 6 months. This has the potential to kick start rapid and widespread digital progress and technical upskilling for individuals, leading to longer term structural changes in how and where people work. There is a possibility that real estate could look quite different after the coronavirus pandemic. These changes might have happened over time naturally however this pandemic has accelerated the change dramatically.
- 7.2 As at the end of the June quarter, the Office void rate (excluding Building 1 which is under construction) stood at 17% (of which 5% was under offer at the time) and the Industrial void rate stands at 25%. The relatively high vacancy rate for the industrial component reflects on the high office content that these units were developed in the late 1980's with, whereas modern day businesses require typically a 10-15% office content. The service charge levels on The Park may also be a factor for such occupiers and the Council is expecting our advisors to bring forward recommendations to address these

issues. The office vacancy rate at 12% (allowing for the recent lettings) is compatible with other business parks such as Chiswick Park at a vacancy rate of 15%. The figure however may also be distorted by the high occupancy turnover rate in Building 6 which comprises a series of small starter and incubator units, and where tenants have been particularly impacted by Covid.

- 7.3 Many occupiers will now be asking themselves whether they need the quantum of office space in the future. There will be occupiers who had rolling leases with serviced operators across the UK who are able to exit their contract at a months' notice, and for them the decision has been more immediate.
- 7.4 For other companies on traditional leases, they will not be able to make these decisions until their lease expiry or if they have the benefit of a break option event.
- 7.5 There are individual cases where tenants on Croxley Business Park have requested rent holidays / payments plans, these are being looked at on a case by case basis and with the long term income of the Park in mind. It is likely however that the post-pandemic office will need to adapt after a prolonged period of remote working. There will be a cultural shift and a greater acceptance from everyone around flexible working.
- 7.6 As at 30th June 2020, the total debt at Croxley Park rose from £1,292,291 (inclusive of VAT) at the end of Q1 to £2,402,206 (inclusive of VAT) by the end of Q2. The 10 largest outstanding amounts are tracked by LSHIM and reported quarterly to the Property Investment Board (PIB),.. The risk associated with debt is under constant review. Two occupiers have entered administration since lockdown in March. It is difficult to determine whether there will be others, but the risk is mitigated by work being done to negotiate packages with other tenants experiencing financial difficulty, ensuring deferred income packages to ease their immediate cashflow issues but provide greater assurance that they will remain as tenants and that the Council will recoup the income over the life of the lease (and in some cases receive a greater overall income as a result).
- 7.7 It is unlikely that everyone will work from home all the time but demand for office space will be lower, with a greater demand for flexibility. It will also be important that employees have adequate space within the office environment to social distance; this will be far easier in those offices that have a larger employee to sq ft ratios. We therefore may experience occupiers seeking larger floorplates in order to accommodate this, with Croxley (and other business parks) generally well positioned to support this.
- 7.8 Croxley Park is well placed to be able to offer employers and employees greater flexibility and a better work / life balance. The park benefits from its campus like feel with green environment and open spaces. The events that

are run by the park management team will continue to attract those employers and employees who are looking for their office space to provide not only a place to work but also a place for social interaction with other workers.

- 7.9 LSHIM were appointed as the Council's investment and asset managers in 2016, and following the acquisition of the long lease interest at The Park (where they provided advice to the Council), their scope has widened to incorporate a regular review of all activity at Croxley Park and the provision of quarterly reports which are presented to PIB, which provides further detail on ongoing and proposed asset and property management activities, and as such remains confidential.

8.0 Conclusion

The impact of Covid 19 was an unforeseen 'Black Swan' event which has disrupted all forms of working and domestic life, the long term impacts of which remain to be seen and understood. In relation to the real estate industry, there is a significant degree of uncertainty as to when and in what numbers office workers will return to the office and to what extent the technological advances made during lockdown enabling a higher degree of homeworking will accelerate a further shift to agile working between home, office and elsewhere.

Most commentators however agree that a workplace is necessary for collaborative working and the need to respect social distancing measures will impact on tenant demand for office space. Despite such uncertainty the level of contracted rent has increased since purchase and significantly, risen over the period between Q1 and Q2. The Park, with its level of amenity, spacious setting of buildings and lower storey levels (max of 4 storeys in Building 1) has continued to operate throughout and lockdown and allows tenants to put in place measures to ensure their workforce are within as safe a surrounding as can be provided and as such, the letting agents remain confident that the Park will continue to receive an encouraging level of tenant interest, as demonstrated by the recent lettings.

9.0 Implications

9.1 Financial

- 9.1.1 The Council is actively monitoring all aspects of the investment through the financial model and conducting scenario planning where necessary. As noted above, the performance of the investment continues to be monitored closely

to ensure that the Council receives the expected returns. The current challenge regarding the impact of Covid19 is the key reason for any variance from the original modelling. Debts continue to be investigated and, as noted above, relief packages negotiated. This is in the context of the emergency legislation which came into effect in April as a result of Covid19 which has reduced the ability to take action to recover debts. It is anticipated that this will cease at the end of September, after which normal enforcement activity is likely to resume.

9.2 Legal Issues (Monitoring Officer)

- 9.2.1 The Group Head of Democracy and Governance comments that there are no legal implications in this report.

Background papers

None

Further information:

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Report approved by Head of Place Shaping