

Reconciliation Between Original Budget / Period 11 Monitor/ and Final Outturn

	£000
Original Budget	16,812
Period 11 Forecast:	17,808
Variation	996
Due to:	
Additional Use of Earmarked reserves	548
Use of Housing Benefit Provision	180
Forecast Overspend	268
 Final Outturn	 16,327
 Variation compared to forecast	 (1,481)
Due to:	
VAT Refund	(1,122)
Capitalisation of part Building M'tce Programme	(343)
Additional Service Variations	16

The final outturn net expenditure including the VAT refund, capitalisation of building maintenance, and before the use of reserves and balances actually indicates a £485k under spend (see Appendix 3 for detail) when compared to the original estimate.

This is not the true ongoing level of expenditure and the one off extraordinary items should be disregarded. By reference to the above summarised analysis, service variations for the 2010/2011 Financial Year indicates a forecast overspend of £286k (£268k + £16k).

The causes of this are detailed within Appendix 3.

Supplementary Notes:

The Original Budget of £16,812k represents the anticipated net expenditure for the Council in 2010/2011 before the use of reserves and balances. It was anticipated in January 2010 (when the budget was finalised) that £280k of reserves and £345k of balances would be used to reduce the net expenditure to be financed from grants and council tax to £16,187k.

An explanation regarding the use of reserves and the housing benefit provision is attached at Appendix 5.

The VAT refund relates to a national situation whereby local authorities had incorrectly paid VAT to HMRC over a circa 10 year period. The HMRC finally repaid principal and simple interest to Watford in March 2011 (after the Period 11 Forecast had been produced). No provision had been made within the accounts during the year because HMRC were specifically trying to resist Watford's claim and a substantial amount of evidence had to be produced in order to justify payment. There

is still approximately £300k of VAT (and simple interest) which is in dispute with HMRC. This has not been assumed to be 'receivable' by the Council and has been noted in the statutory Statement of Accounts as a potential contingent asset. Finally, there is still a national dispute regarding whether the HMRC should have paid compound interest. This potential additional refund has not been accrued- as a 'test case' needs to be established through the courts to establish the probability of success. Watford do not wish to be the 'test case' as there are a number of larger authorities where the 'reward' is greater.

The capitalisation of part of the Building Maintenance Programme occurred during the final accounts closure process and again could not have been predicted at the Period 11 (end of February) Forecast / Budget Monitor. Part of the building maintenance works were found to be capable of financing through the use of capital receipts (rather than from revenue resources). The amount of money spent was exactly the same –it just came out of a different pocket. The reason for doing this is that revenue resources can be used to finance ongoing expenditure as well as funding capital projects. Capital receipts can only be used to finance capital projects. There is therefore more flexibility for the future in preserving revenue resources rather than capital receipts. There is, in effect, no actual cash saving and for that reason it should be discounted when considering the true extent of the final revenue outturn.