Medium Term Financial Strategy (MTFS) 2010/2015 Appendix 1B

As at 30th June 2011.
Supplementary Notes

EXPENDITURE PROJECTIONS 2010/ 2015

Overspend 2010/2011

The MTFS in February 2011 assumed a £300k forecast overspend which was made up as follows: Investment Interest £200k; Commercial Rents £50k; and Market Rents £50k. The Base Estimate for 2011/2012 allowed for these three adjustments to be permanent (recurring).
At 30th June 2011, we now have the Actual Outturn for 2010/2011 which shows an overspend of £341k which has been financed from the Economic Impact Reserve (an analysis of reserves is detailed at Appendices 2A/ 2B).
For the purposes of the Base Estimates for 2011/2012 the additional overspend of £41k does not need to be specifically reflected as it comprises non recurring expenditures such as additional provision for bad debts.

Review of the Assumptions within the MTFS for 2011/2012

The MTFS is a document that needs to be constantly reviewed because the components within it are constantly changing. The MTFS at Appendix 1A reflects latest intelligence/ knowledge of the pressures upon the 2011/2012 Revenue Budget.

Reduced Investment Interest

Whilst interest rates are anticipated to increase in the period 2012/2015 (albeit slower than originally anticipated), our actual cash portfolio will fall as a consequence primarily of financing the capital programme. This situation could change should there be a surplus asset disposal programme (which is being finalised at the present time). No major new capital receipts have been assumed at this time.

Commercial Rents:

The actual outturn showed that commercial rents underachieved by £88k (as compared to the £50k forecast. In addition to this there could well be further vacancies during 2011/2012—as consumers stop spending money and businesses fail. For example, Life and Style have announced they will be going into administration (annual rent of circa £250k) although it is hoped that the company will continue to trade.
The revised MTFS for 2011/2012 should therefore allow for a further £250k shortfall (in addition to the £50k already allowed for within the base estimates).
For 2012/2013 it has been assumed that the situation will improve and that £125k of this reduced rent can be built back in. Similarly a further £125k of additional rent income has been assumed in 2013/2014.
Obviously the rental income at Charter Place will be affected by the redevelopment project, but no provision / assumptions have been made as there is a proposed £2.5m rent guarantee when the Development Agreement with Henry Boot PLC is signed.

Market Rents:

The MTFS in February had assumed a £50k shortfall in rent income.
The actual outturn showed a shortfall of £111k. An additional £60k reduction in income has been reflected within the Revised MTFS. This may deteriorate further in future years —but then our expenditure costs should also fall to some extent.

Homelessness: Bed and Breakfast Costs:
Latest projections indicate a £150k forecast overspend in 2011/2012. The Council has, in the past, avoided the need to use bed and breakfast accommodation. It is hoped that proactive management will reduce this dependence in 2012/2013 and 2013/2014 but an anticipated over spend throughout this period is likely.

Revenues and Benefits Shared Services costs:
The R&B cost centre continues to employ additional agency staff as it seeks to reduce backlogs (against increased demand). It has been assumed there will be an additional £150k falling to Watford in 2011/2012. It is anticipated this will reduce progressively in succeeding years (£75k reduced cost in each year).

Revenues and Benefits Additional Subsidy Costs
These increases have been provided by the Head of Revenues and Benefits Shared Services and reflect his assessment of the net cost of benefit subsidy falling upon Watford

Revenues and Benefits Reduced Administration Grant
Notification has been received of the administration grant (at a National level) to be available for 2012/2013. If that is replicated at a local level then Watford will suffer a £56k reduction. This has now been reflected within the MTFS.

Shared Services: Operating Costs / Phase 2 Efficiency Savings
SS has identified a 10% saving over a three year period. It also has to allow for inflation/ pay awards/ increments. Its assumptions include 2% pay award in 2012/2013, and 3% in 2013/2014. It has also allowed for a 1% increase in superannuation contributions in 2013/2014 (Watford hasn't assumed this until 2014/2015). With regards to price inflation, it has been cash limited—unless some outsourced contracts have an in built inflation factor—which has been allowed for. The net effect of all of the above is to show a £75k saving for Watford in 2012/2013—because most of the saving occurs in this year; and growth of £140k in 2013/2014. Shared Services doesn't budget for 2014/2015 so it has been assumed there will be further growth of £100k in that year.

Pay Inflation/ Increments
From the Council's pay model the MTFS has reflected increments in 2011/2012; 2012/2013; and 2013/2014. It has allowed for no increments thereafter as current staffing will all have reached the top point. It has also built in pay awards of 2%, 3% and 2% for the 3 years 2012/2015. No specific allowance has been made for price inflation unless our outsourced contracts have an inflation allowance built in. There has however been some allowance for inflation for all utility costs (gas/ electricity/ water/ fuel) over the three years 2012/2015 and this is detailed below.

Additional Superannuation Contributions
A 1% increase in 2014/2015 has been built in (this is one year later than allowed for by Shared Services). The Watford assumption has been derived from guidance emanating from the Herts CC Pensions team. Major proposals to change the current LGPS are likely (and which should reduce deficits within councils pensions schemes) but any changes have not been reflected at this time.

Contracts/ Utilities Contingency Provision
See inflation note above. The 2011/2012 Base Estimates have built in an approximate 15% inflationary allowance for utility costs. For 2012/2013 onwards a contingency provision has been allowed at this time (and would be allocated out when detailed estimates for future years are finalised.

Service Prioritisation Efficiency Savings
The Base Budgets approved in February 2011 assumed the following profiled savings: 2011/2012 £1,806k; 2012/2013 £943k; & 2013/2014 £228k.
It would be sensible to allow for a degree of non achievement in these figures—for example, the Subway toilets will not now close and the anticipated £44k saving will therefore not be achieved. Allowance for a £200k permanent non achievement in 2011/2012; and a further £100k non achievement in 2012/2013 has been reflected within the MTFS.

Service Prioritisation Efficiency Savings Phase 2
Council on 26th January 2011 agreed that a further £2m of efficiency savings needed to be identified in 2013/2014, 2014/2015 and 2015/2016. It is instructive to note that £1.6m of this saving will be required to finance future pay inflation (and as referred to earlier). The profile of the £2m saving is as follows:

2013/2014	£ 329k
2014/2015	£ 669k
2015/2016	£1,017k

And this has been reflected within the Revised MTFS.

Net Expenditure
This shows a projected fall between 2010/2011 and 2011/2012, but this is overstated because the net cost of concessionary fares in 2010/2011 of circa £756k has been transferred to Herts County Council. If this is discounted then the annual reductions in net expenditure are 6.1% in 2011/2012 ; 3.3% in 2012/2013 ; followed by increased expenditure of 0.08% in 2013/2014; and 1.14% in 2014/2015. These two increases in the later years are due to pay awards/ inflation and some inevitable growth.

It should be appreciated that the Revised Medium Term Financial Strategy highlights major variations and does not purport to identify all variations during the four year period.

FUNDING PROJECTIONS 2010/2015

Revenue Support Formula Grant/ Redistributed NNDR
The figures for 2011/12 & 2012/2013 are consistent with the final settlement announced by the Secretary of State for Communities and Local Government.
For the following two years, further cash reductions of 1.5% and 5.5% have been assumed to (part) reflect the continued reductions announced within the October 2010 Comprehensive Spending Review (where a cumulative 10% national reduction was forecast).

Council Tax Freeze Grant
This has been confirmed at £205k additional grant each year for a four year period. It should be noted however that this grant will not be received in 2015/2016 and will result in a shortfall in income. There is a possibility that further grant will be made available for a similar freeze in 2012/2013 but that the cost of this is likely to be financed by reducing each authorities Revenue Support Grant. Taking this into account, the effect of no increase in council tax in 2012/2013 has now been factored into the revised MTFS.

New Homes Bonus
This grant is calculated by reference to the number of new homes coming on stream in any one year and is available from April 2011 for a six year period. The conditions applying to the grant is that it is available to finance either revenue or capital expenditure. The grant available to Watford for 2011/2012 has been notified as £420k and is due to increase in each succeeding year as more homes are completed. The £420k is effectively guaranteed for the six year period but caution should however be taken as this grant funding is top sliced off the RSG Formula Grant and it is possible that Watford's RSG might fall. Within this MTFS therefore it has only been assumed that £420k will be received for the four years of this MTFS period.

Homelessness Grant
As part of the RSG Formula Grant Settlement, the DCLG announced an increase of £95k to this non ring fenced grant. As part of Budget finalisation for 2011/ 2012 it was resolved that the current level of homelessness grant in 2010/2011 of £186k should continue to support 'housing', but that this additional grant should be used to meet the severe reduction in central government RSG support.

Collection Fund Surplus
Watford has consistently assumed a 98% council tax collection rate for any one financial year. In the past this has been proven to be a slightly cautious estimate which has ultimately been exceeded. The consequence has been that a surplus on the Collection Fund has generally been declared. This surplus has to be shared with the two precepting authorities (Herts County Council and the Police Authority) in the approximate proportions: WBC 16%; HCC 74%; and HPA 10%. For 2009/2010, for example, the collection rate is currently 98.21% and this has helped result in the £179k WBC Collection Fund surplus reflected within the MTFS and taken into account in finalising the 2011/2012 Budget.
For 2011/2012 a collection rate of 97.5% has been assumed (due to the extreme pressures on household budgets) and at this time the MTFS has assumed no further surpluses will arise from the Collection Fund.

Planned Contribution to Earmarked Reserves
This relates to an annual contribution from the vehicle and plant account towards the ultimate replacement of the council's 12 refuse freighters. These freighters were purchased in 2010/2011 for £1.495m and have between a 5 to 7 year life. They were purchased from capital receipts because the Council was/ is only accruing an approximate 1.3% rate of interest on its cash portfolio. A comparative exercise indicated that, had the freighters been leased then the financing charge would have been 8% and this did not make financial sense.
The annual contribution to a Vehicle Replacement Reserve serves two purposes, firstly to ensure the vehicle and plant account does not have 'free use' of valuable

assets; and secondly to ensure there will be some available provision, should it be required, to replace the current fleet when they are time expired. Alternatives to replace the fleet do exist and include use of capital receipts (if any are available); leasing—although it is highly likely that this will be a more expensive option;
or outsourcing the whole waste service function including the vehicle and plant—again this has to be paid for and would be reflected within the annual outsourced contract.
It is advisable therefore to continue to build up this Replacement Reserve which can, of course, be reviewed at some point should circumstances change.

From Reserves to Fund Overspend/ Budget Gap
Appendix 1A indicates £341k required to fund the 2010/2011 overspend.
It also indicates a budget gap of £403k; £812K; £846k; and £982k during the four year period 2011/2015. A total of £3,044k of reserves are scheduled to be used between 2010 to 2015.

General Fund Balance
The balance at the 31st March 2011 is £1.350m and represents 8.8% of the net expenditure for 2011/2012. It is recommended that this should not be drawn down and that the Council's Reserves should be used to support any excess expenditure.

Council Tax Base
The Revised MTFS has used the same assumptions as the previous MTFS namely a 97.5% collection rate in 2011/2012 and a 98% rate thereafter.
It has assumed a marginal increase in the CT Base as more properties come on line; a council tax freeze in 2012/2013 and a 2.5% year on year increase in council tax in 2013/2014 and succeeding years.