

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Monday, 12 September 2022

Report author: Head of Finance

Title: Financial Monitoring Report 2022/23 - Quarter 1

1.0 Summary

1.1 This report sets out the financial monitoring position for 2022/23 as at Quarter 1 (1 April to 30 June 2022). This is the first report of the financial year and focuses on the forecast year end position compared to the original budget which was set in January 2022.

1.2 Since the budget was set, the economic forecast for 2022/23 and beyond has changed significantly. Rising inflation presents a significant risk to the Council's budget in 2022/23 and will have an ongoing impact across the Medium Term Financial Strategy (MTFS). The potential financial impact of inflationary risks are set out in Section 4 below and further detail is provided in appendices 1 to 4.

1.3 The information in this report is presented based on the new Senior Leadership Structure agreed by Cabinet on 11 July 2022 and effective from 1 August 2022. Cabinet are recommended to approve the associated budget realignments as set out in appendix 8 of this report.

1.4 Revenue Summary

1.4.1 The following table sets out the original budget of £13.734m which was agreed at Council on 24 January 2022, the latest budget which includes the budget carry forwards as reported at Cabinet on 11 July 2022, and the year end forecast at Quarter 1. The resulting forecast variance to budget is £0.298m. It is expected that this will be met from the Economic Impact Reserve at year end.

| Revenue Account 2022/23 | | | | |
|--------------------------------------|----------------------------------|--------------------------------|---------------------------|--|
| Service Area | Original Budget £'000 | Latest Budget £'000 | Forecast £'000 | Variance to Latest Budget £'000 |
| Corporate, Housing & Wellbeing Place | 6,260 (454) | 6,894 55 | 6,866 377 | (28) 321 |
| Democracy, Strategy and Initiatives | 3,641 | 3,642 | 3,647 | 5 |
| Strategic Finance | 4,287 | 4,536 | 4,536 | 0 |
| Net Cost of Service | 13,734 | 15,127 | 15,425 | 298 |
| Funded By: | | | | |
| Planned use of Reserves | (49) | (1,442) | (1,740) | (298) |
| Taxation & Non Specific Grants | (13,685) | (13,685) | (13,685) | 0 |
| Total Funding | (13,734) | (15,127) | (15,425) | (298) |

1.4.2 The detailed revenue position is set out in Section 4 below with further detail at service level provided in appendices 1 to 4.

1.5 Capital Summary

1.5.1 The original Capital Investment Programme for 2022/23 was agreed by Council on 25 January 2022. The agreed budget was £79.210m. The latest agreed budget is £116.879m and includes £37.669m carried forward from 2021/22 as reported to Cabinet on 11 July 2022.

| Budget Responsibility | Latest Budget 2022/23 £'000 | Forecast Year end Position £'000 | Actual to date £'000 |
|--|--|---|-------------------------------------|
| Executive Director of Corporate, Housing & Wellbeing Services | 19,985 | 15,497 | 4,403 |
| Executive Head of Strategy & Initiatives (Communications, Partnerships & Community) | 65 | 65 | - |
| Executive Director of Place | 58,772 | 43,799 | 898 |
| Director of Finance - Strategic Finance | 38,057 | 14,682 | 9,131 |
| TOTAL CURRENT CAPITAL PROGRAMME | 116,879 | 74,043 | 14,432 |

1.5.2 Following a review of the profile of expenditure for 2022/23, the forecast year end position is £74.043m. Requests for rephrasing of budgets to reflect revised expenditure profiles will be presented to Cabinet in January. It is expected that the majority of the forecast underspend of £42.836m will be required in future years.

1.5.3 The detailed capital position is set out in Section 4 below with further detail at service level provided in appendices 1 to 4.

2.0 Risks

2.1 The key budgetary risks are set out in appendix 8. All risks are closely monitored on an ongoing basis.

2.2 Service specific risks are set out in appendices 1 to 4.

3.0 Recommendations

3.1 To consider the Financial Monitoring Report 2022/23 – Quarter 1, and note both the revenue and capital forecasts for 2022/23.

3.2 To recommend to Council to agree to realign the budget structure following the senior leadership review.

3.3 To makes any recommendations to Cabinet and/or Council.

Further information:

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4.0 Detailed proposal

4.1 Economic Context

4.1.1 The current economic climate has triggered a cost-of-living crisis, affecting people worldwide. Rising inflation, largely driven by the sharp increase in price of energy and food has the potential to cause significant financial hardship for many people who live and work within the Borough as well as impacting directly on the cost of delivery of Council services. In response to rising inflation, the Bank of England has raised interest rates with the objective of managing inflation back towards the target of 2% but this also further increases pressure on budgets. In addition, the Bank of England now predicts a lengthy recession at the end of the year.

4.1.2 The Bank of England produces quarterly Monetary Policy Reports which set out the expectations for inflation, interest rates and economic growth. The Council's budget for 2022/23 was agreed by Council on 24 January 2022. The Monetary Policy Report published on 3 February 2022 recognised that inflation was above the

2% target and was expected to peak at 7% in the spring but then swiftly fall back. Despite the increased costs of energy, the UK economy was predicted to continue to grow. This position represented a small decline in the outlook from the previous quarterly report (November 2021) which expected inflation to peak at 5% and return to 2% following a modest increase in interest rates. It was against this outlook that the 2022/23 budget and MTFS was set.

4.1.3 The Council's annual budget setting process takes into account forecasts for inflation. However, where possible, the Council cash limits budgets and only applies inflation to supplies and services budgets where there is a contractual commitment so to do. This means that, for a significant proportion of the Council's budget, annual efficiencies equivalent to the rate of inflation are delivered as services manage increased costs within existing budgets. Over the last five years, annual inflationary pressures of between 1.5% (March 2021) and 9% (March 2022) have been absorbed within budgets.

4.1.4 The main exception to cash limited budgets is for the annual pay award where a contingency budget is created to fund a pay award based on available information regarding the pay settlement. An allowance of 2% has been allowed across the MTFS for increases to pay, linked to the Bank of England's target for inflation.

4.1.5 Since the budget was set the economic outlook has significantly declined. The latest Monetary Policy Report, published on 4 August 2022, sets out that inflation is now expected to peak higher and remain higher for longer. The Bank of England now forecasts a peak of 13% and a period of two years before rates return to the target of 2%, well into the Council's existing MTFS period. Alongside this, the economy is now expected to enter recession in the last two quarters of 2022.

4.1.6 Inflation, measured by twelve month CPI, was 10.1% in July 2022 (9.4% in June). The combination of higher and more pervasive inflation is likely to mean that it will not be possible to absorb cost pressures, driven by inflation, within existing budgets during 2022/23 and creates a challenging environment for financial planning for 2023/24 onwards.

4.2 **Revenue Budget 2022/23**

4.2.1 The latest net revenue budget is £15.127m. The year end forecast of £15.425m and resulting variation to budget of £0.298m is set out by service area in the table below:

| Directorate | Service Area | Latest Budget £000 | Year end Forecast £000 | Actuals to date £000 | Forecast Variance to Budget £000 |
|---------------------------------------|--|-----------------------|------------------------------|----------------------------|---|
| Corporate, Housing and Wellbeing | Customer and Corporate Services | 1,690 | 1,667 | 498 | (23) |
| | Housing and Wellbeing | 4,207 | 4,201 | (640) | (6) |
| | ICT and Shared Services | 997 | 997 | 676 | 0 |
| Place | Environment | 8,305 | 8,493 | 2,732 | 188 |
| | Planning, Infrastructure and Economic Development | 1,030 | 1,003 | (1,094) | (27) |
| | Property and Asset Management | (9,279) | (9,119) | (3,509) | 160 |
| Corporate Strategy and Communications | | 1,118 | 1,118 | 285 | 0 |
| Democracy and Governance | | 1,999 | 2,004 | 583 | 5 |
| Human Resources | | 525 | 525 | 156 | 0 |
| Strategic Finance | | 4,536 | 4,536 | 128 | 0 |
| Total | | 15,127 | 15,425 | (184) | 298 |

- 4.2.2 There are two main areas of forecast overspend, both within the Place Directorate, partially offset by forecast underspends across the wider Council. These are within the Environment Service and Property and Asset Management Service.
- 4.2.3 The forecast overspend of £0.133m within the Environment Service includes a forecast pressure of £0.096m in relation to additional electricity costs in the new market. The monthly cost of electricity has increased from £1,500 to £2,000 per month to £10,000. This is a result of increased energy costs and increased usage. This is being closely monitored.
- 4.2.4 Across the wider Council, the Council's energy contract, which pre-purchased gas and electricity in bulk and at a lower cost, has protected budgets from the impact of increased energy costs in the short term. The price is reset every six months in April and October and is expected to increase in October. A further update will be provided in the next monitoring report.
- 4.2.5 The forecast overspend of £0.215m within the Property and Asset Management Service relates to contract management costs for the Council's rental portfolio which are above budget by £0.135m and £0.080m additional staffing costs due to the use of interim staff to fill key vacancies which is a result of the challenging recruitment market in this specialist area. It may be possible to reduce the forecast pressure on staffing costs as the year progresses and the use of interim staff reduces.
- 4.2.6 Further detail on the revenue forecast and reported variations to budget are set out in Appendices 1 to 4.

- 4.2.7 The forecast year end position does not include the impact of the 2022/23 pay award. The pay award remains the most significant risk to the annual budget and MTFs. The unions submitted the 2022 pay claim, effective from 1 April 2022, which would see individual council employees receive the higher of a £2,000 rise or the current rate of RPI (presently 12.3%). An offer was made by the National Employers Panel on 25 July 2022.
- 4.2.8 The offer included an increase of £1,925 for all employees and an increase in allowances of 4.04% effective from 1 April 2022 plus an increase of one day to all employees' annual leave entitlement from 1 April 2023. This offer has not been accepted by the unions.
- 4.2.9 The offer made by the National Employers Panel is significantly above the 2.0% increase allowed within the budget for 2022/23 and represents an increase to the pay budget of around 5.9%.
- 4.2.10 The total cost is estimated at £0.580m (including increased on costs) compared to a budget of £0.197m. If agreed, this would create an annual pressure of £0.383m. This pressure could be met from the Economic Impact Reserve on a one off basis in the current year but will need to be addressed on an ongoing basis through the budget planning process.

4.3 Capital Investment Programme 2022/23 to 2024/25

- 4.3.1 The Capital Investment Programme was agreed by Council in January 2022. The original budget for 2022/23 was £79.210m. The latest budget has been updated to include the reprofiling of £37.669m from 2021/22 into 2022/23 as agreed by Council in July 2022. The latest forecast is set out in the table below:

| Budget Responsibility | | Latest Budget 2022/23 (Excluding rephasings for approval) £'000 | Forecast Outturn £'000 | Actual to date £'000 | Latest Budget 2023/24 (Excluding rephasings for approval) £'000 | Latest Budget 2024/25 (Excluding rephasings for approval) £'000 |
|---|---|--|------------------------------|----------------------------|--|--|
| Executive Director of Corporate, Housing & Wellbeing Services | Associate Director of ICT & Shared Services | 1,413 | 1,413 | 66 | 860 | 530 |
| | Associate Director of Customer & Corporate Services | 17,029 | 12,720 | 3,782 | 12,090 | 0 |
| | Associate Director of Housing & Wellbeing | 1,543 | 1,363 | 555 | 350 | 350 |
| Executive Head of Strategy & Initiatives (Communications, Partnerships & Community) | | 65 | 65 | 0 | 0 | 0 |
| Executive Director of Place | Associate Director of Planning, Infrastructure & Economy | 3,417 | 2,921 | 212 | 1,050 | 0 |
| | Associate Director of Property & Asset Management | 40,507 | 27,220 | 463 | 5,182 | 2,023 |
| | Associate Director of Environment | 14,848 | 13,658 | 224 | 1,531 | 1,367 |
| Director of Finance - Strategic Finance | Head of Finance - Strategic Finance | 38,057 | 14,682 | 9,131 | 677 | 677 |
| TOTAL CURRENT CAPITAL PROGRAMME | | 116,879 | 74,043 | 14,432 | 21,740 | 4,947 |

- 4.3.2 The forecast year end position of £74.043m is £42.836m lower than the latest budget. This reflects the anticipated reprofiling of schemes across the Capital Investment Programme including the Hart Homes and Riverwell Joint Ventures based on the latest approved business plans.
- 4.3.3 A request to rephase these budgets will be included in the Quarter 3 monitoring report to Cabinet. A detailed scheme breakdown is provided in appendices 1 to 4.
- 4.3.4 Rising Inflation poses a significant risk to the affordability of the Capital Investment Programme. The Council is particularly exposed to this risk where schemes are still at the feasibility or pre-tender stage. Where schemes are already within contract this provides some protection against the risk of price increases. However, there is an increased risk of contractor or sub-contractor failure in light of the inflationary pressures on businesses. Mitigation measures are already in place to protect the Council through the tender and contracting process, including assessment of the financial sustainability of contractors.
- 4.3.5 A detailed risk assessment of the Capital Investment Programme is being undertaken and this will be incorporated into the budget setting process.
- 4.3.6 The Capital Investment Programme is funded by capital receipts (generated by the sale of assets), revenue contributions (including earmarked reserves), capital grants and contributions, and borrowing under the prudential borrowing framework. Detail of the proposed funding for the 2022/23 forecast capital investment is set out in appendix 5.
- 4.3.7 The revenue implications of borrowing are incorporated into the Council's MTFS and are reported within the Strategic Finance budgets. This includes interest payable on external borrowing, fees associated with arranging borrowing, and the Minimum Revenue Provision for the repayment of debt (MRP).

4.4 General Fund and Earmarked Reserves

- 4.4.1 The following table sets out the latest forecast for the General Fund and Earmarked Reserves.

| Reserve Type | Balances at 1 April 2022 | Movement in Year | Balance at 31 March 2023 |
|-----------------------------|--------------------------|------------------|--------------------------|
| Specific Earmarked Reserves | (25,177) | 1,735 | (23,442) |
| Economic Impact Reserve | (1,744) | 387 | (1,357) |
| General Fund | (2,000) | 0 | (2,000) |
| Total | (28,921) | 2,122 | (26,799) |

4.4.2 The Council's risk assessed level for the General Fund is £2.000m. The General Fund is forecast to remain at this level for 2022/23 and over the MTFs.

4.4.3 The Economic Impact Reserve is held to smooth the impact of a surplus or deficit against the budget. The original budget for 2022/23 includes a funding gap of £0.089m which will be funded from a contribution from this reserve. The forecast assumes that the reported overspend of £0.303m is also funded from the Economic Impact Reserve.

4.4.4 Earmarked Reserves are used to support service expenditure and projects. A detailed breakdown of the forecast for Earmarked Reserves is provided at appendix 6.

4.5 **Strategic Finance**

4.5.1 Strategic Finance includes budgets in relation to the Council's Treasury activities and Capital Financing, incorporating borrowing costs and investment income.

4.5.2 The Council has managed its cash flows and adhered to its Treasury Management policy during Quarter 1. The interest earned on the investments made by the Council supports the funding of the services it provides.

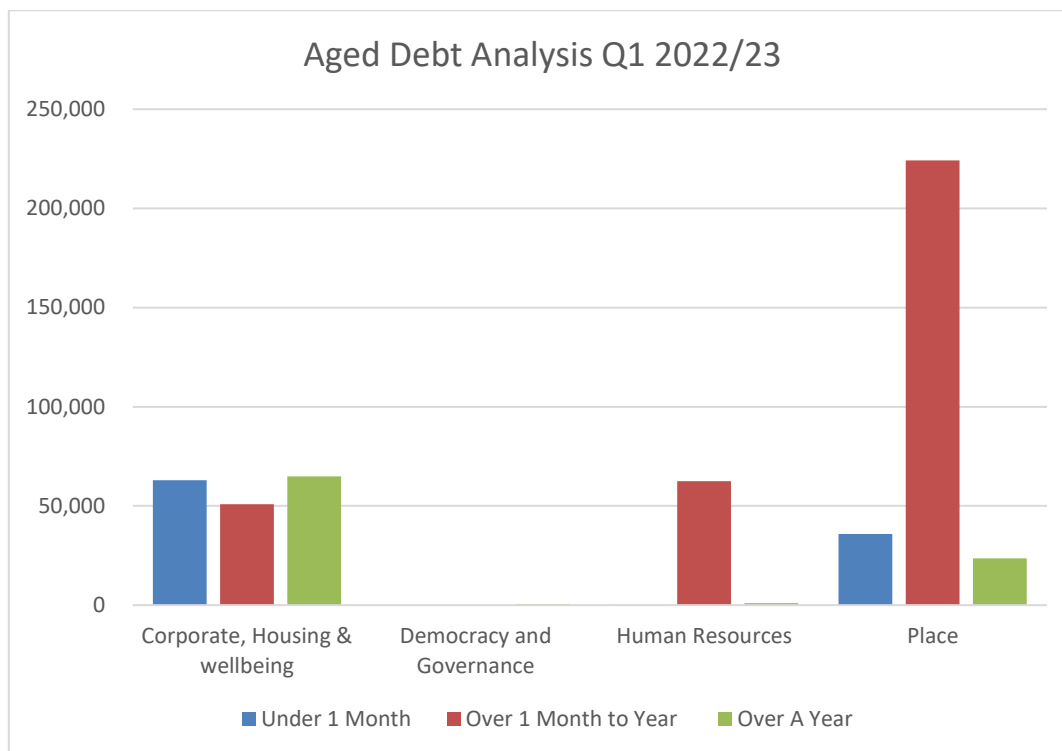
4.5.3 The Bank of England base interest rate was 0.75% on 1 April 2022, and was subsequently increased by 0.25% in both May and June 2022. The base rate was therefore 1.25% at the end of the period. A further increase of 0.50% was made in August 2022. The increase in base rate has fed through into increased market returns for short-term deposits which will have a positive impact on interest earned. However, the interest rate on Government Gilts has also risen resulting in increased borrowing rates from both the Public Works Loan Board (PWLb) and the inter-authority lending market. The forecast for interest rates is being closely monitored to ensure that the Council's debt portfolio is financed at the right time to take advantage of the best rates.

4.5.4 Further detail is provided in appendix 4.

4.6 **Aged Debt**

4.6.1 The Council charges its customers for various services by raising a debtor invoice. The customer is given 21 days to pay after which a reminder is issued if payment remains outstanding and a dispute has not been raised. If the debt continues to remain 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.

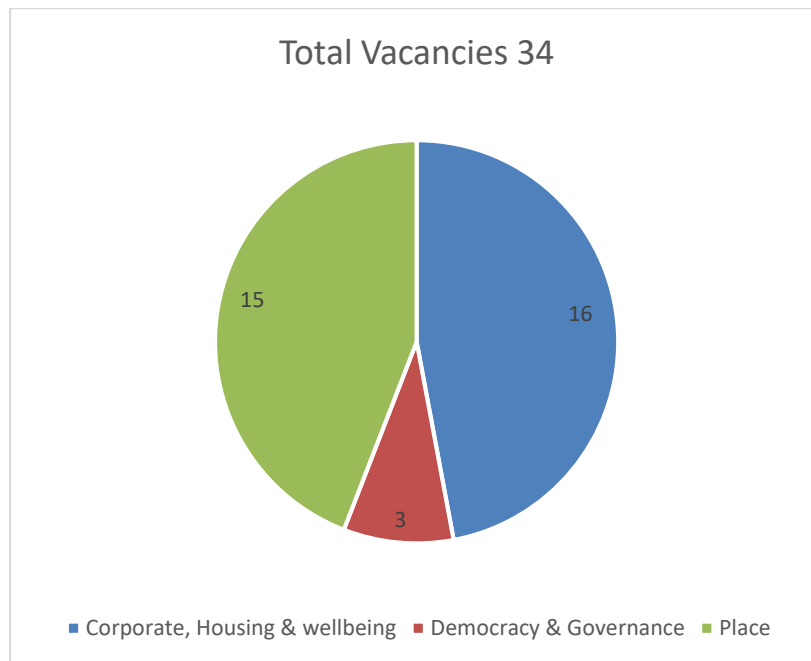
4.6.2 The following graph sets out the aged debt analysis as at 30 June 2022. The total outstanding debt at this date was £0.526m. This compares to a total outstanding debt of £1.180m at 30 June 2021.



4.6.3 Of the outstanding debt, £0.099m (19%) is under one month and is expected that the majority of these debt will be settled. The total debt over one year is £0.89m (17%). The Council’s debt recovery team will continue to chase these debts and initiate payment plans to enable debtors to pay by instalments wherever possible.

4.7 Vacancy Monitoring

4.7.1 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 graph below summarises the level of vacancies at the end of June 2022 with a detailed analysis by service within appendices 1 to 4.



5.0 Implications

5.1 Financial

5.1.1 The Shared Director of Finance comments that the financial implications are set out in the main body of the report.

5.2 Legal Issues (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that there are no legal implications directly arising from 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 characteristics and persons who do not share them.

5.3.2 Having had regard to the council's obligations under s149, it is considered there are no relevant issues arising directly from this report.

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 Section 17 of the Crime and Disorder Act 1998 requires the council to give due regard to the likely effect of the exercise of its functions on crime and disorder in its area and to do all it reasonably can to prevent these. There are no issues arising from this report.

5.7 **Sustainability**

5.7.1 There are no sustainability implications arising from this report.

Appendices

- Appendix 1 Corporate, Housing and Wellbeing Services Directorate Monitoring Report
- Appendix 2 Place Directorate Monitoring Report
- Appendix 3 Democracy, Strategy and Initiatives Monitoring Report
- Appendix 4 Strategic Finance
- Appendix 5 Capital Finance
- Appendix 6 Earmarked Reserves
- Appendix 7 Key Budgetary Risks