

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Wednesday, 8 March 2023

Report author: Head of Finance

Title: Financial Monitoring Report Period 10 - January 2022/23

1.0 Summary

1.1 This report sets out the financial monitoring position for 2022/23 as at Period 10 (1 April to 31 January 2023). This is the fourth report of the financial year and focuses on the forecast year end position compared to the approved latest budget set in January 2023.

1.2 The latest budget takes into account the impact of inflation during 2022/23 which has driven up the cost of delivering services through increases to energy, supplies and services and wages. Persistent high inflation remains the most significant risk to the Council's budget across the Medium-Term Financial Strategy (MTFS). The potential financial impact of inflationary risks is set out below in Section 4 below.

1.3 Revenue Summary

1.3.1 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 and variances reported to Period 9 2022/23 as reported to Council on 31 January 2023, and the year end forecast on 31 January 2023. The resulting forecast variance to latest budget is (£0.093m).

Revenue Account 2022/23				
Service Area	Original Budget £'000	Latest Budget £'000	Forecast £'000	Variance to Latest Budget £'000
Corporate, Housing & Wellbeing	5,538	5,240	5,121	(119)
Place	(51)	2,269	2,269	0
Democracy, Strategy and Initiatives	3,961	4,051	4,085	34
Strategic Finance	4,287	3,611	3,603	(8)
Net Cost of Service	13,734	15,171	15,079	(93)
Funded By:				
Planned use of Reserves	(49)	(1,486)	(1,394)	93
Taxation & Non Specific Grants	(13,685)	(13,685)	(13,685)	0
Total Funding	(13,734)	(15,171)	(15,079)	93

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

1.4 Capital Summary

1.4.1 The original Capital Investment Programme of £79.210m for 2022/23 was agreed by Council on 25 January 2022. The latest agreed budget is £46.080m which includes £37.669m carried forward from 2021/22 was approved by Cabinet on 31 January 2023.

Service Area	Latest Budget 2022/23 £000's	Forecast Outturn 2022/23 £000's	Actual to Date £000's
Corporate, Housing & Wellbeing Services	15,260	15,199	8,610
Place	17,422	17,422	6,090
Strategic Finance	13,397	13,397	10,489
TOTAL CURRENT CAPITAL PROGRAMME	46,080	46,018	25,189

1.4.2 Following a review of the profile of expenditure for 2022/23, the forecast year end position is £46.018m.

1.4.3 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 – Period 10 and note both the revenue and capital forecasts for 2022/23.

3.2 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 As noted in previous financial monitoring reports, the current economic environment is starkly different from the economic outlook when the original budget was set in January 2022. Inflation has remained pervasively high throughout the year with April seeing the lowest 12 month increase of 9% and a high of 11.1% recorded in November. January CPI was 10.1% (10.5% in December).
- 4.1.2 The [latest report from the Bank of England Monetary Policy Committee \(MPC\)](#), sets out that inflation is expected to fall rapidly during the 2023/24 financial year to 3% by 31 March 2024 and reducing to 0.4% by the end of the Council's MTFS period. The MPC attributes this to a number of factors including a slowing the risk in energy costs, resolution of supply chain issues for businesses, and the actions taken by the MPC to increase the Bank of England base rate which is now at 4%.
- 4.1.3 As previously noted, a reduction in the rate of inflation will reduce future price rises but will not return prices to previous levels meaning that higher prices are baked into expenditure in future years. Current prices have been built into the 2022/23 latest budget and the MTFS agreed by Council on 31 January 2023. In addition, a contingency budget has been set aside to help manage inflation in future years but there is a risk that inflation will exceed this, particularly in the short term.
- 4.1.4 On 30 January, UNISON, GMB and Unite lodged their pay claim for 2023/24 which included a headline claim for a pay increase of 12.7%, being the November Retail Price Index 12 month inflation figure of 10.7% plus 2%.
- 4.1.5 On 23 February 2023 the National Employers for local government services responded to this with an initial offer of £1,925 per employee for employees on scale point 2 to 43 and a 3.88% increase for employees above this pay spine but below deputy chief officer. This would achieve a pay increase of 9.42% for those at the bottom of the scale and ensure a minimum increase of 3.88% across all employees. This is higher than the 3.5% recommended by HM Treasury for other public sector workers including teachers, nurses, doctors, dentists, police, and judges. At the time of writing, the Unions have not formally responded to this initial offer.
- 4.1.6 The MTFS includes an allowance of 2% per year for pay inflation creating a total 6% allowance across the three-year MTFS. This offer would significantly exceed the allowance in 2023/24 but could be brought back to broadly within budget by the

end of MTFS if inflation falls as swiftly as projected by the Bank of England resulting in minimal pay awards in 2034/25 and 2025/26.

4.2 Revenue Budget 2022/23

4.2.1 The latest net revenue budget is £15.171m. The year end forecast of £15.158m and resulting variation to budget of (£0.093m) 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 & Wellbeing	Customer and Corporate Services	1,797	1,767	1,364	(30)
	Housing and Wellbeing	2,338	2,249	174	(89)
	ICT and Shared Services	1,105	1,105	1,122	0
Place	Environment	8,535	8,535	8,401	0
	Planning, Infrastructure and Economic Development	1,578	1,578	1,069	0
	Property and Asset Management	(7,844)	(7,844)	(7,745)	0
Corporate Strategy and Communications		1,482	1,482	(3,623)	0
Democracy and Governance		2,047	2,081	1,638	34
Human Resources		522	522	499	0
Strategic Finance		3,611	3,603	1,504	(8)
Total		15,171	15,079	4,403	(93)

4.2.2 There is one area of forecast overspend within Democracy & Governance, reflecting the impact of the increase in member allowances agreed by Council on 31 January 2023. The underspend within Housing & Wellbeing primarily relates to a drawdown from the Sustainability reserve which is not required in 2022/23 and is offset by a reduction in planned use of reserves.

4.2.3 Further detail on the revenue forecast and reported variations to budget are set out in Appendices 1 to 4.

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 as approved by Council on 31 January 2023 includes 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:

Service Area		Latest Budget 2022/23	Forecast Outturn 2022/23	Actual to date	Latest Budget 2023/24 (Including rephasings & savings)	Latest Budget 2024/25 (Including rephasings & savings)	Latest Budget 2025/26 (Including rephasings & savings)
		£	£	£	£	£	£
Corporate, Housing & Wellbeing Services	ICT & Shared Services	1,413,286	1,413,286	235,253	243,000	530,000	530,000
	Customer & Corporate	12,720,000	12,720,000	7,579,032	14,561,800	337,000	0
	Housing & Wellbeing	1,126,997	1,065,463	795,626	311,534	250,000	250,000
Strategy & Initiatives (Communications, Partnerships & Community)		0	0	0	65,000	0	0
Place	Planning, Infrastructure & Economy	1,824,556	1,824,556	1,056,636	1,783,231	660,000	400,000
		160,932	160,932	160,920	20,490	120,450	0
	Property & Asset Management	1,985,488	1,985,488	1,217,555	1,803,721	780,450	400,000
		10,165,517	10,165,517	3,220,752	19,709,462	4,603,000	5,399,000
Environment	5,271,289	5,271,289	1,651,580	4,034,000	7,813,133	406,000	
Strategic Finance	Strategic Finance	13,396,961	13,396,961	10,489,109	5,701,860	676,860	676,860
TOTAL CURRENT CAPITAL PROGRAMME		46,079,538	46,018,004	25,188,908	46,430,377	14,990,443	7,661,860

- 4.3.2 The forecast year end position of £46.018m is £0.061m lower than the latest budget. This is comprised of minor variations within the Housing and Wellbeing service where rephasing into 2023/24 will be requested in the year end report to reflect the latest spend profile. A detailed scheme breakdown is provided in appendices 1 to 4 and includes commentary on schemes where there is risk to delivering the forecast spend by 31 March 2023.
- 4.3.3 As previously reported, ongoing 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.
- 4.3.4 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.

- 4.3.5 The latest capital investment programme includes planned use of £1.555m Community Infrastructure Levy (CIL). The schemes funded from CIL are set out in Appendix 6.
- 4.3.6 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).
- 4.3.7 The Council’s primary lender of long term capital finance is the Public Works Loans Board (PWLb). PWLB interest rates are linked to Government Gilt rates. The rise in government borrowing costs is also driving up the cost of borrowing for local authorities. On 31 January 2023 the rate for a 25 year loan was 4.79%. This compares to a ten year average of 3.23%. The latest forecast for PWLB rates from the Council’s Treasury Management advisors, Link Group, indicates that PWLB rates will begin to fall gradually over the MTFs period to 3.40% in March 2026. However, higher interest rates over the next three years will place pressure on the Council’s capital financing budget and makes affordability for new capital schemes challenging.

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	(24,431)	1,253	(23,178)
Economic Impact Reserve	(1,744)	141	(1,603)
General Fund	(2,000)	0	(2,000)
Total	(28,175)	1,394	(26,781)

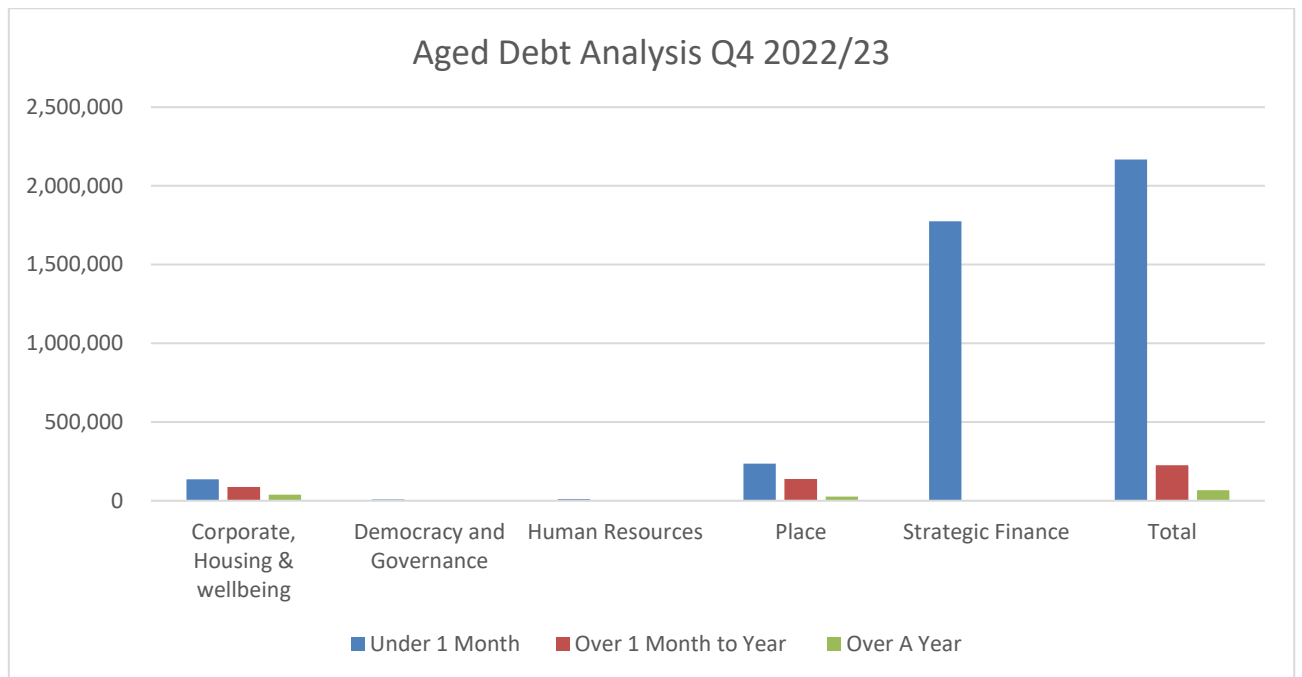
- 4.4.2 The Council’s risk assessed level for the General Fund is £2.000m. The General Fund is forecast to remain at this level for 2022/23 and over the MTFs.
- 4.4.3 The Economic Impact Reserve is held to smooth the impact of a surplus or deficit against the budget. The original budget for 2022/23 included a funding gap of £0.089m which was planned to be funded from a contribution from this 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 7.

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 the year to 31 January. 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 has increased incrementally over the year to 4.0% at 3 February 2023 as the Bank of England takes measures to manage inflation. 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 following the mini budget on 23 September 2022. 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

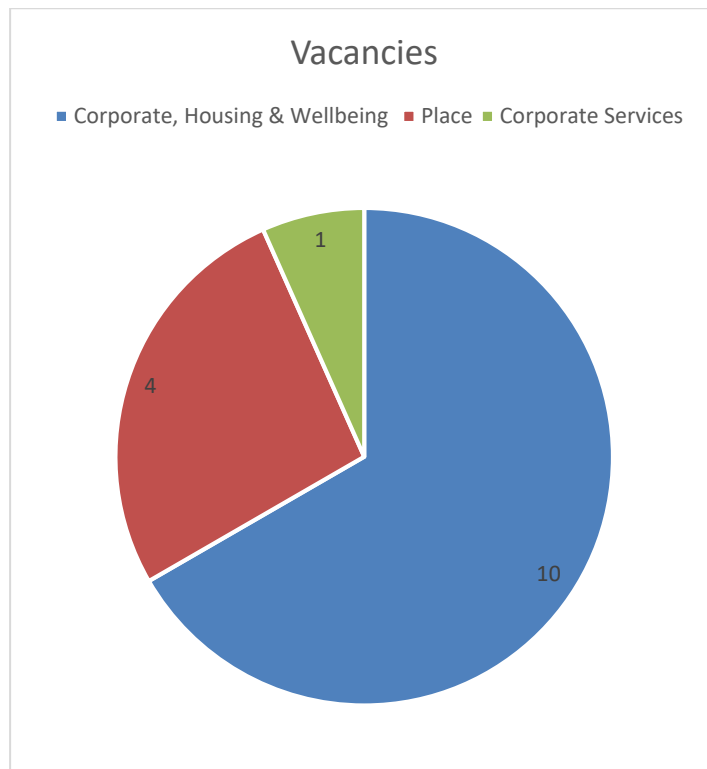
- 4.6.1 The Council charges its customers for various services by raising a debtor invoice. The customer is given 21 days to pay after which a reminder is issued if payment remains outstanding and a dispute has not been raised. If the debt continues to remain outstanding then a variety of recovery methods 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 of 31 January 2023. The total outstanding debt at this date was £2.167m. This included an invoice to West Herts Crem Joint Committee for the recovery of capital costs incurred by the Council on behalf of the Joint Committee in relation to the development of a new crematorium. This invoice was for £1.794m and has now been paid. Excluding this invoice, debt was £0.898m. This compares to a total outstanding debt of £1.229m on 30 September 2022. Underlying debt has therefore decreased by £0.331m.



4.6.3 Of the outstanding debt (excluding the invoice to the Joint Committee), £0.391 (57%) is under one month and is expected that most of this debt will be settled. The total debt over one year is £0.066m (9.7%). This has increased from £0.027m at 31 January 2023. 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 January 2023 with a detailed analysis by service within appendices 1 to 4. The total vacancies at 31 January was 15 FTE compared to 21 FTE at 30 November.



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 Planned use of Community Infrastructure Levy
- Appendix 7 Earmarked Reserves
- Appendix 8 Key Budgetary Risks