

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Tuesday, 27 June 2023

Report author: Head of Finance

Title: Financial Monitoring Report - Year End 2022/23

1.0 Summary

- 1.1 This report sets out the revenue and capital year end position for the financial year 2022/23. The position is subject to external audit and may change. The audit of the accounts is expected to take place during 2023/24 and will be undertaken by Ernst Young LLP.
- 1.2 The macro-economic environment continues to provide challenges for local authority finances. Inflation, measured by 12 month Consumer Price Index (CPI) was 9.0% in April 2022. This was the smallest 12 month increase across the year with a peak of 11.1% in October 2022 before the rate of increase slowed to 10.1% in March 2023. The 12 month increase in April 2023 was 8.7% reflecting the fact that significant increases in prices were already built into the previous April rate.
- 1.3 In January, the Council revised its budget, noting that inflation remained a risk during the year and in 2023/24. The revised budget reflected the impact of the pay award which was equivalent to around 6% of the Council's pay bill and took account of reduced income from the leisure management contract as a result of the ongoing impact of COVID-19. These pressures were offset by reductions in net expenditure in other services resulting in an overall increase to the budget of just £0.044m.
- 1.4 The revised services Net revenue budget for 2022/23 (set at Council on 31 January 2023) was £13.774m. The outturn position at 31 March 2023 was £14.087m. This is a net overspend of £0.312m. The latest budget included a gap of £0.089m to be funded from the Economic Impact Reserve, this takes the final year end position to an overspend of £0.401m. The revenue variances are set out in full in Appendix 1.
- 1.5 The Council (at its meeting on 31 January 2023) agreed a revised 2022/23 capital budget of £46.080m. At 31 March 2023 the Council had spent £33.356m giving an underspend of £12.723m. Services are requesting that a net £10.526m is rephased to 2023/24 onwards to reflect the latest delivery programme.
- 1.6 The Council's capital programme has continued to be subject to macro-economic factors effecting the construction industry with the shortage of materials in the

supply chain impacting at the beginning of the year and price increases for materials being further driven up by energy inflation as the year progressed. The impact of these factors on the capital programme has been closely monitored throughout the year with the longer-term implications addressed through the budget setting process for 2023/24 although the affordability of schemes will remain under review given the inflationary environment.

2.0 Risks

2.1 The key budgetary risks are set out in Appendix 6. The risks are monitored throughout the year and reported in the Financial Monitoring Report to Finance Scrutiny Committee and Cabinet.

3.0 Recommendations

3.1 To consider and note the 2022/23 revenue year end position as summarised at Paragraph 4.3.1 and set out at Appendix 1.

3.2 To consider and note the 2022/23 capital year end position as summarised at Paragraph 4.4.1 and shown in detail in Appendix 4.

3.3 To note the request to rephase capital budgets of £10.526m into 2023/24 onwards and the revised capital investment programme of £58.441m for 2023/24, £15.452m for 2024/25 and £8.054m for 2025/26 which will be recommended onto Council for approval.

3.4 To note that Council will be recommended to agree the use of £2.400m funding from the Community Infrastructure Levy to fund the delivery of the Colosseum project within the Town Hall Quarter Programme.

Further information:

Hannah Doney
hannah.doney@threerivers.gov.uk

Report approved by:

Alison Scott, Shared Director of Finance

4.0 Detailed proposal

4.1 This report focuses on the variation between the latest agreed budget and the final expenditure and income for the financial year.

4.2 The report provides an analysis of the revenue and capital year end position for 2022/23. A more detailed financial report can be found in the Statement of Accounts. The draft statement of accounts for 2022/23 was authorised for issue by the Director of Finance on 31 May 2023 and is available on the Council’s website. The accounts are subject to review by the Council’s external auditors and this could result in changes to the numbers presented in this report. Following the conclusion of the audit, the Final Statement of Accounts will be approved by the Council’s Audit Committee.

4.3 Revenue Year End 2022/23

4.3.1 Appendix 1 details the major variances between the revised budget and the year end position. The following table sets out the variations to budget by service area:

Service Area	Revised Budget £'000	Net Expenditure £'000	Variance to Budget £'000
Democracy & Governance	2,047	2,063	16
Place	2,157	3,345	1,188
Corporate Strategy & Comms	1,482	1,603	121
Human Resources	522	598	76
Strategic Finance (this includes pension liability costs of £2.6m)	2,326	2,115	(211)
Corporate, Housing & Wellbeing	5,240	4,362	(878)
Net Direct Cost of Service	13,774	14,086	312
Planned use of Economic Impact Reserve	-89	0	89
Net Cost of Service 2022/2023	13,685	14,086	401

4.3.2 The net variation to budget at year end is £0.312m. After taking into account the planned use of the economic impact reserve, the total contribution required from reserves is £0.400m.

4.3.3 The variation of £1.188m reported for Place includes the impact of inflation on the Veolia contract and reflects the impact of high inflation at the end of 2021/22 and the pay award for 2022/23 working through to the total contract price at year end.

- 4.3.4 The underspend reported for the Corporate, Housing and Wellbeing Services Includes additional income received from the Health Protection Board within Environmental Health and grant funding for the Housing service. In both cases the external funding has been utilised ahead of the Council's core budget, releasing an underspend to the Council.
- 4.3.5 An underspend of £0.211m is reported for Strategic Finance reflecting additional interest received from Treasury Management activities as a result of higher than forecast cash balances in the final three months of the year and the impact of the sharp increase in Bank of England base rate which has improved the returns achievable on short term deposits.
- 4.3.6 The impact of contract inflation on the Veolia budget will feed through into the base contract costs for 2023/24. The 2023/24 budget included a 7% allowance for inflation but did not fully allow for the high level of inflation during 2022/23. This can be partly managed by the contingency budget for inflation created in the 2023/24 financial planning process.
- 4.3.7 The pay award for 2023/24 is likely to present a further budget pressure in 2023/24. An offer, equivalent to around 6% of the Council's total pay budget, has been made by the National Joint Council. However, this has been rejected by the Unite and GMB Unions with Unison expected to follow suit. It is likely that the pay negotiations will be protracted, and the final position will remain unknown well into the financial year. The ongoing impact will be managed through the Financial Planning process for 2024/25 to 2026/27.
- 4.3.8 The Financial Monitoring Report to Finance Scrutiny Committee in September will set out the latest estimates and steps being taken to manage the impact, including allocation of the contingency budget.

4.4 **Capital Year End 2022/23**

- 4.4.1 A summary of the Council's capital investment during 2022/23 against the latest agreed budget is set out in Appendix 3. During 2022/23, the Council invested £33.356m in capital schemes, including the commencement of works on Woodside Sports Village, continuation of the work on the Town Hall Quarter and commencement of construction of new units at Watford Business Park delivering economic regeneration. Appendix 4 sets a detailed analysis of the council's capital programme over the MTFs, including the impact of requests to rephase budgets into future years.
- 4.4.2 A summary of how the 2022/23 capital investment programme has been financed is provided at Appendix 5. As a result of capital investment during 2022/23, the Council's borrowing requirement has increased by £20.843m. The additional interest payable and Minimum Revenue Provision (allowance for the repayment of

debt) have been built into the Council’s revenue budget for 2024/25 onwards. Grant funding applied includes the use of £3.274m Public Sector Decarbonisation Scheme (PSDS) grant which has contributed towards energy efficiency works at the Town Hall.

4.4.3 The table below provides a summary of the variation to budget after taking account of rephasing requests:

WBC Capital Programme 2022/23	£'000
Revised Budget	46,080
Expenditure	33,356
Variance	12,723
Rephasing requests to 2023/24 Onwards	10,526
Croxley Park (Funded from the contribution that formed part of the acquisition)	392
Net overspend / (underspend)	(1,806)

4.4.4 Major schemes to be rephased into 2023/24 are :-

- Town Hall Quarter £3.361m
- Watford Business Park Phase 2 £1.980m

4.4.5 During 2022/23 a Capital Contingency budget of £1.233m was created. This contingency was not allocated during 2022/23 and will also be carried forward to manage price risk across the programme in future years.

4.4.6 The revised capital programme at appendix 4 includes additional investment in the Town Hall Quarter Programme of £2.400m. This additional investment will be funded from the Community Infrastructure Levy to enable the delivery of refurbishment works to the Colosseum, subject to agreement by Council on 18 July 2023.

4.5 **Council Reserves**

4.5.1 The Council has set aside specific amounts which it holds as reserves for future business purposes and to cover contingencies in case of operational need i.e. economic impact reserve.

4.5.2 Appendix 6 shows the level of Earmarked Reserves held by the council, which at the beginning of the year stood at £22.946m and closed at the end of the year at

£20.852m after the revenue overspend is funded from the Economic Impact Reserve. The General Fund remains at the risk assessed level of £2.000m after the year end variation to budget is funded from the Economic Impact Reserve. The total reserves available at 31 March 2023 are therefore £22.852m.

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 Revenue variances 2022/23
- Appendix 2 Capital Summary 2022/23
- Appendix 3 Capital detailed report 2022/23
- Appendix 4 Capital Programme Funding 2022/23
- Appendix 5 Reserves 2022/23
- Appendix 6 Key Budgetary Risks

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.

- Budget Report to Council – January 2022
- Budget Report to Council – January 2023
- Financial Monitoring Report to Period 10 to Cabinet – March 2023