

## Part A

**Report to:** Finance Scrutiny Committee

**Date of meeting:** Tuesday, 12 September 2023

**Report author:** Head of Finance

**Title:** Financial Monitoring Report 2023/24 - Quarter 1

### 1.0 Introduction

1.1 This report sets out the financial monitoring position for 2023/24 as at Quarter 1 (1 April to 30 June 2023). 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 2023.

1.2 As set out in the report, the Council's financial position is challenging. Persistent high inflation, rising interest rates, and the impact of the cost of living crisis on residents has resulted in a number significant pressures across the Council's budgets. Mitigation measures are in place to bring down the forecast revenue overspend before year end and ongoing pressures will be addressed through the Council's budget planning process.

### 1.3 Revenue Summary

1.3.1 The following table sets out the original budget of £14.962m which was agreed at Council on 31 January 2023. The resulting forecast variance to budget is a forecast overspend of £3.026m. It is expected that this will be met from the Economic Impact Reserve, other earmarked reserves, and the General Fund.

Revenue Account 2023/24				
Service Area	Original Budget £'000	Latest Budget £'000	Forecast £'000	Variance to Latest Budget £'000
Corporate, Housing & Wellbeing	5,735	5,735	6,580	845
Place	188	188	2,633	2,445
Democracy, Strategy and Initiatives	3,925	3,925	3,908	(17)
Strategic Finance	5,114	5,114	4,867	(247)
<b>Net Cost of Service</b>	<b>14,962</b>	<b>14,962</b>	<b>17,988</b>	<b>3,026</b>
Funded By:				
Planned use of Reserves	(632)	(632)	(2,168)	(1,536)
Use of Economic Impact Reserve	0	0	(990)	(990)
Gap funded from General Reserves	(70)	(70)	(570)	(500)
Taxation & Non Specific Grants	(14,260)	(14,260)	(14,260)	0
<b>Total Funding</b>	<b>(14,962)</b>	<b>(14,962)</b>	<b>(17,988)</b>	<b>(3,026)</b>

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.

1.3.3 The Mayor and Portfolio Holders are working with members of the council's Corporate Management Team to identify actions that can be taken in year to address the budget pressures the Council now faces. These actions will be brought forward as part of the Quarter 2 monitoring report when it is anticipated that there will be an improvement in the forecast overspend reported.

## 1.4 Capital Summary

1.4.1 The original Capital Investment Programme for 2022/23 was agreed by Council on 31 January 2023. The agreed budget was £46.369m. The latest agreed budget is £58.441m and includes £9.672m carried forward from 2022/23 and additional approved budget changes of £2.400m.

<b>Budget Responsibility</b>	<b>Latest Budget 2023/24 £000's</b>	<b>Forecast Outturn 2023/24 £000's</b>	<b>Actual to Date £000's</b>
Executive Director of Corporate, Housing & Wellbeing Services	21,325	17,715	786
(Communications, Partnerships & Community)	65	65	0
Executive Director of Place	30,116	23,105	3,020
Director of Finance - Strategic Finance	6,935	6,535	759
<b>TOTAL CURRENT CAPITAL PROGRAMME</b>	<b>58,441</b>	<b>47,421</b>	<b>4,566</b>

1.4.2 Following a review of the profile of expenditure for 2023/24, the forecast year end position is £47.421m with the majority of the underspend of £11.020m required in future years.

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 2023/24 – Quarter 1, and note both the revenue and capital forecasts for 2023/24.
- 3.2 To make any recommendations to Cabinet and/or Council.

#### Further information:

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#### Report approved by:

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### 4.0 Detailed proposal

#### 4.1 Revenue Budget 2023/24

- 4.1.1 The latest net revenue budget is £14.962m. The year end forecast of £17.988m and resulting variation to budget of £3.026m 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	1,739	1,741	511	3
	Housing and Wellbeing	2,953	3,696	(29)	743
	ICT and Shared Services	1,043	1,143	587	100
Place	Environment	7,575	9,631	2,076	2,056
	Planning, Infrastructure and Economic Development	1,521	1,581	193	60
	Property and Asset Management	(8,908)	(8,579)	430	329
Democracy, Strategy and Initiatives	Corporate Strategy and Communications	1,348	1,348	406	0
	Democracy and Governance	2,025	2,009	383	(17)
	Human Resources	551	551	189	0
Strategic Finance		5,114	4,867	8,469	(247)
<b>Total</b>		<b>14,962</b>	<b>17,988</b>	<b>13,216</b>	<b>3,026</b>

- 4.1.2 Within Housing and Wellbeing, there is a forecast pressure of £0.600m in relation to temporary accommodation due to an increase in the number of people being supported. There are a range of contributing factors including rising rents, no fault evictions as private landlords exit the rental market, and a shortage of available

accommodation. These factors are all linked to the cost of living crisis including rising interest rates driving up mortgage costs.

- 4.1.3 The cost of the Veolia contract is linked to inflation and the pay award meaning that the contract increases annually. The total forecast pressure in relation to the contract is £1.351m of which £1.1m is brought forward from 2022/23. An allowance was made for a 7% increase in the budget for 2023/24 as a result of indexation. It is now expected that this will be 8.7%, contributing to the increased cost pressure.
- 4.1.4 In addition, a forecast overspend of £0.115m is reported for income from recycling. The Council has a contract for the disposal of recycling. The cost of the contract is variable and is linked to the global commodities market. The price can fluctuate significantly and when demand for recyclable materials is high the Council receives income for the recycling. Currently, the Council faces a cost to dispose of recycling as demand for materials has reduced. Recent economic performance data released from China, where the economy appears to have entered a recession, suggests that demand for recyclable materials could remain low for longer, increasing the cost to the Council.
- 4.1.5 Within the underspend of £0.247m reported for Strategic Finance is a forecast pressure of £0.400m in relation to the pay award for 2023/24. This forecast is based on the current employer offer of the higher of £1,925 or 3.88%. The offer was rejected by the three main unions (Unison, Unite and GMB) in the spring and unions have balloted members on potential strike action. The outcome of the ballots will be known in the Autumn, but it is not expected that the pay award will be resolved until December at the earliest.
- 4.1.6 An underspend of £0.877m is reported within Strategic Finance due to a reduction to the annual pension fund deficit payment to the pension fund following the pension fund triannual valuation which set employer contribution rates for 2023/24 to 2025/26.
- 4.1.7 Further detail on the revenue forecast and reported variations to budget are set out in Appendices 1 to 4.
- 4.1.8 In order to address the in year overspend a number of corporate spending controls have been put in place:
  - 4.1.8.1 Recruitment freeze (exceptions process in place for key posts)
  - 4.1.8.2 Minimising use of agency staff, interim posts and consultancy
  - 4.1.8.3 Minimising overtime
  - 4.1.8.4 Contract procurements should be delivered within existing budgets
  - 4.1.8.5 Identify opportunities to stop or pause activities and initiatives to reduce spend on non-essential matters

4.1.9 It is expected that the impact of these measures will have an impact on the forecast at Quarter 2. Where in year pressures are expected to be ongoing, the impact is being taken into account in the budget planning process.

## 4.2 Capital Investment Programme 2023/24 to 2025/26

4.2.1 The Capital Investment Programme was agreed by Council in January 2023. The original budget for 2023/24 was £46.369m. The latest budget has been updated to include the reprofiling of £9.672 from 2022/23 into 2023/24 and additional budget of £2.400m as agreed by Council in July 2023.

Budget Responsibility		Latest Budget 2023/24	Forecast Outturn 2023/24	Actual to date	Latest Budget 2024/25 (Including rephasings & savings)	Latest Budget 2025/26 (Including rephasings & savings)
		£'000	£'000	£'000	£'000	£'000
Executive Director of Corporate, Housing & Wellbeing Services	Associate Director of ICT & Shared Services	635	635	182	922	922
	Associate Director of Customer & Corporate Services	20,323	16,714	594	4,138	0
	Associate Director of Housing & Wellbeing	367	367	10	250	250
Executive Head of Strategy & Initiatives (Communications, Partnerships & Community)		65	65	0	0	0
Executive Director of Place	Associate Director of Planning, Infrastructure & Economy	2,011	1,861	(82)	930	400
	Associate Director of Property & Asset Management	22,321	16,249	2,889	4,903	12,299
	Associate Director of Environment	5,784	4,995	213	8,411	406
Director of Finance - Strategic Finance	Head of Finance - Strategic Finance	6,935	6,535	759	377	677
<b>TOTAL CURRENT CAPITAL PROGRAMME</b>		<b>58,441</b>	<b>47,421</b>	<b>4,566</b>	<b>19,932</b>	<b>14,954</b>

4.2.2 The forecast year end position of £47.421m is £11.020m 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. A detailed scheme breakdown is provided in appendices 1 to 4.

4.2.3 Virement requests to rephase capital budgets and reallocate resources between projects are set out in Appendix 7. Cabinet will be asked to recommend approval of these virements to Council in October to ensure that budgets accurately reflect latest projections.

4.2.4 As has been noted over the last year, high inflation poses a significant risk to the affordability of the Capital Investment Programme and there continues to be a risk of contractor failure in light of the low economic growth and risk of recession. Mitigation measures continue to be in place to protect the Council through the

tender and contracting process, including assessment of the financial sustainability of contractors.

- 4.2.5 All schemes within the capital programme are kept under review to ensure that they continue to deliver value for money.
- 4.2.6 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 2023/24 forecast capital investment is set out in appendix 5.
- 4.2.7 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). Rising interest rates mean that the charge to revenue for borrowing will be higher over the medium term than previously forecast. Where schemes are financed by borrowing, in addition to considering value for money, the affordability of capital schemes is kept under review to ensure that sufficient revenue budget is available.

### 4.3 General Fund and Earmarked Reserves

- 4.3.1 The following table sets out the latest forecast for the General Fund and Earmarked Reserves:

Reserve Type	Balances at 1 April 2023	Budgeted use of reserves	Movement in Year	Balance at at 31 March 2024
Specific Earmarked Reserves	(20,201)	633	1,535	(18,033)
Economic Impact Reserve	(990)	0	990	0
General Fund	(2,000)	69	501	(1,430)
<b>Total</b>	<b>(23,191)</b>	<b>702</b>	<b>3,026</b>	<b>(19,463)</b>

- 4.3.2 Earmarked Reserves are used to support service expenditure and projects. A detailed breakdown of the forecast for Earmarked Reserves is provided at Appendix 6. This includes additional forecast use of Earmarked Reserves of £1.609m.
- 4.3.3 Cabinet will be asked to recommend to Council approval of budget virements to recognise the planned use of reserves. These are set out in Appendix 7.
- 4.3.4 The Economic Impact Reserve is held to smooth the impact of a surplus or deficit against the budget. The forecast assumes that the balance if this reserve, £0.990m,

is utilised in full to manage the forecast in year overspend and reduce the impact on the general fund.

4.3.5 The Council's risk assessed level for the General Fund is £2.000m. Based on the latest forecast, the General Fund will fall below this level to £1.430m at year end after meeting the funding gap of £0.070m in the original budget for 2023/24 and the balance of the reported in year overspend. Mitigation measures are being implemented to reduce the forecast overspend in year and reduce the drawdown on the General Fund. If this is not achieved, action will need to be taken over the MTFs to enable a contribution to the General Fund to return it to the minimum risk assessed level.

#### **4.4 Strategic Finance**

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

4.4.2 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.

4.4.3 The Bank of England base interest rate was 0.75% on 1 April 2023, and was subsequently increased by 0.25% in both May and June 2022. The base rate was therefore 5.0% at the end of the period. A further increase of 0.25% was made on 3 August 2023 taking the rate to 5.25%. 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 available rates.

4.4.4 Further detail is provided in appendix 4.

#### **4.5 Savings Monitoring**

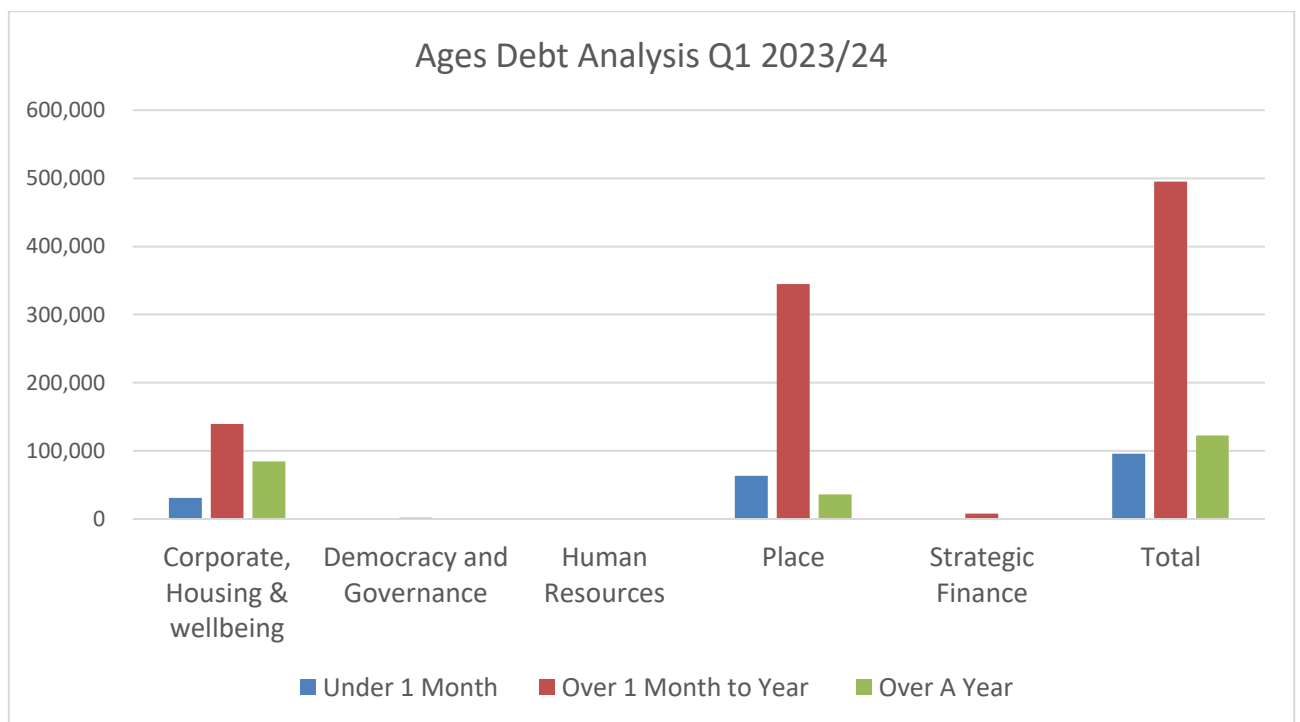
4.5.1 The MTFs agreed by Council in January 2023 included planned savings of £1.060m in 2023/24. As at 30 June, £0.230m (21.7%) had been delivered and a further £0.261m (24.6%) are reported as being on track to be delivered (rated green). Savings totalling £0.408m (38.6%) are at risk of not being delivered or not delivered in full (rated amber). One saving of £0.025m (2.4%) is likely to not be delivered (rated red) and a saving of £0.135m (12.7%) has been identified as not deliverable in 2023/24. This saving relates to additional income from the investment property portfolio which is not achievable in the current year due to the impact of lease events across the portfolio.

4.5.2 Where savings are not expected to be met or will only be part met in year, the impact has been taken into account in the reported forecast variation to budget. The detailed breakdown and commentary is provided in Appendix 9.

#### 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 2023. The total outstanding debt at this date was £0.713m. This compares to a total outstanding debt of £0.318 at 30 June 2022.



4.6.3 Of the outstanding debt, 13% is under one month. The total debt over one year is £0.123m. The Council’s debt recovery team will continue to chase these debts and initiate payment plans (instalments) wherever possible.



## 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 Virements
- Appendix 8 Key Budgetary Risks
- Appendix 9 Savings Monitoring