

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Tuesday, 21 November 2023

Report author: Chief Finance Officer

Title: Financial Monitoring Report 2023/24 - Quarter 2

1.0 Introduction

1.1 This report sets out the financial monitoring position for 2023/24 as at Quarter 2 (1 April to 30 September). This is the second report of the financial year and focuses on the forecast year end position compared to the latest budget which includes budget changes as approved by Council on 17 October 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 continue to be in place to bring down the forecast revenue overspend before year end which have been agreed by the Mayor and Portfolio Holders. These measures include:

- A recruitment freeze with an exception process in place for critical posts or where recruitment reduces cost of interim staff;
- Minimising use of agency staff, interim contractors, consultancy and overtime;
- Any procurements should be delivered within existing budgets or make savings on existing budgets
- Identifying opportunities to stop or pause activities and initiatives to reduce spend on non-essential matters in year.

1.3 Ongoing pressures will be addressed through the Council's budget planning process for 2024/25 onwards.

1.4 Revenue Summary

1.4.1 The following table sets out the original budget of £14.962m which was agreed at Council on 31 January 2023. The latest budget includes approved changes as agreed at Council on 17/10/2023 is £16.499m. The year end forecast at quarter 2 is £17.809m which is an overspend of £1.310m compared to the latest budget.

1.4.2 The projected year end forecast has reduced by £0.179m since the end of Quarter 1. The detailed revenue position, including changes to the forecast, is set out in Section 4 below with further detail at service level provided in appendices 1 to 4.

1.4.3 It is expected that the forecast overspend of £1.310m will be met from the Economic Impact Reserve 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	6,078	6,616	538
Place	188	782	2,836	2,054
Democracy, Strategy and Initiatives	3,925	3,925	3,907	(17)
Strategic Finance	5,114	5,714	4,449	(1,265)
Net Cost of Service	14,962	16,499	17,808	1,310
Funded By:				
Planned use of Reserves	(632)	(2,168)	(2,168)	0
Use of Economic Impact Reserve	0	0	(990)	(990)
Gap funded from General Reserves	(70)	(70)	(390)	(320)
Taxation & Non Specific Grants	(14,260)	(14,260)	(14,260)	0
Total Funding	(14,962)	(16,499)	(17,809)	(1,310)

1.5 Capital Summary

1.5.1 The original Capital Investment Programme for 2022/23 was agreed by Council on 31 January 2023. The latest agreed budget is £46.369m. The latest agreed budget was approved at Council on 17 October 2023.

1.5.2

Budget Responsibility	Latest Budget 2023/24 £000's	Forecast Outturn 2023/24 £000's	Actual to Date £000's
Executive Director of Corporate, Housing & Wellbeing Services	17,715	12,136	1,698
Executive Head of Strategy & Initiatives (Communications, Partnerships & Community)	65	65	0
Executive Director of Place	22,519	22,064	10,058
Director of Finance - Strategic Finance	6,535	1,510	491
TOTAL CURRENT CAPITAL PROGRAMME	46,834	35,775	12,247

1.5.3 Following a review of the profile of expenditure for 2023/24, the forecast year end position is £35.775m with the majority of the underspend of £11.059m required in future years.

1.5.4 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 2 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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4.0 Detailed proposal

4.1 Revenue Budget 2023/24

4.1.1 The latest net revenue budget is £16.499m. The year end forecast of £17.808m and resulting variation to budget of £1.310m is set out by service area in the following table. The main pressures driving the variation are unchanged from Quarter 1 and are as a result of external economic environment.

Directorate	Service Area	Latest Budget	Year end Forecast	Actuals to date	Forecast Variance to Budget
		£'000	£'000	£'000	£'000
Corporate, Housing and Wellbeing	Customer and Corporate Services	1,739	1,719	995	(20)
	Housing and Wellbeing	3,196	3,720	1,115	524
	ICT and Shared Services	1,143	1,177	950	34
Place	Environment	7,954	9,868	4,070	1,914
	Planning, Infrastructure and Economic Development	1,521	1,543	910	22
	Property and Asset Management	(8,694)	(8,575)	(3,102)	120
Democracy, Strategy and Initiatives	Corporate Strategy and Communications	1,348	1,348	690	0
	Democracy and Governance	2,026	2,008	738	(18)
	Human Resources	551	551	312	0
Strategic Finance		5,714	4,449	13,372	(1,265)
Total		16,499	17,808	20,050	1,310

- 4.1.2 Within Housing and Wellbeing, there is a forecast pressure of £0.524m of which £0.500m relates 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 £1.390m 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. The forecast has increased by £0.040m from Quarter 1.
- 4.1.4 In addition, a forecast overspend of £0.115m is reported for income from recycling. This is unchanged from the cost pressure reported in Quarter 1. 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 £1.065m 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 employer offer of the higher of £1,925 or 3.88% which was agreed on 1 November 2023. The offer was initially rejected by the three main unions (Unison, Unite and GMB) in the spring and unions balloted members on potential strike action. The offer has now been accepted by Unison and GMB. Although Unite have not accepted the offer it can be implemented with the agreement with two of the three major unions. Staff will receive the backdated pay award to from April 2023 in December payroll. This was the earliest opportunity to implement the pay award due to the timing of payroll which is run in the middle of the month.

4.1.6 An underspend of £0.877m continues to be 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 3. 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 virements and rephasing of budgets as agreed at Council on 17 October 2023.

Budget Responsibility		Latest Budget 2023/24 £	Forecast Outturn £	Actual to date £	Latest Budget 2024/25 £	Latest Budget 2025/26 £
Executive Director of Corporate, Housing & Wellbeing Services	Associate Director of ICT & Shared Services	635	635	73	922	922
	Associate Director of Customer & Corporate Services	16,714	11,114	1,571	9,738	0
	Associate Director of Housing & Wellbeing	367	387	54	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	1,861	859	13	1,626	400
	Associate Director of Property & Asset Management	15,649	17,010	9,292	4,142	12,299
	Associate Director of Environment	5,009	4,196	753	8,392	822
Director of Finance - Strategic Finance	Head of Finance - Strategic Finance	6,535	1,510	491	3,507	677
TOTAL CURRENT CAPITAL PROGRAMME		46,834	35,775	12,247	28,577	15,370

- 4.2.2 The forecast year end position of £35.775m is £11.059m lower than the latest budget. This reflects the anticipated reprofiling of schemes across the Capital Investment Programme notably the Town Hall Quarter programme totalling circa £10.0m. A detailed scheme breakdown is provided in appendices 1 to 4.
- 4.2.3 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.
- 4.2.4 All schemes within the capital programme are kept under review to ensure that they continue to deliver value for money.
- 4.2.5 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.
- 4.2.6 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). 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 31 March 2024
Specific Earmarked Reserves	(35,065)	2,168	0	(32,897)
Economic Impact Reserve	(990)	0	990	0
General Fund	(2,000)	69	320	(1,611)
Total	(38,055)	2,237	1,310	(34,508)

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.

4.3.3 The Economic Impact Reserve is held to smooth the impact of a surplus or deficit against the budget. The forecast assumes that the balance of this reserve, £0.990m, is utilised in full to manage the forecast in year overspend and reduce the impact on the general fund.

4.3.4 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 £1.611m at year end after meeting the funding gap of £0.069m 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 2. 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 May, June and August 2023. The base rate was therefore 5.25% at the end of the period. 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 Council plans to utilise internal borrowing during the remainder of 2023/24 rather than refinancing maturing loans and taking additional borrowing over the remainder of the year.

4.4.4 The quarter 2 monitoring position includes a forecast for additional net income of £0.427m from treasury management activities. This reflects the change in approach to the Council's investment in externally managed funds which will deliver additional short term investment interest income and reduce borrowing costs incurred in year.

4.4.5 Further detail is provided in appendix 4.

4.5 Savings Monitoring

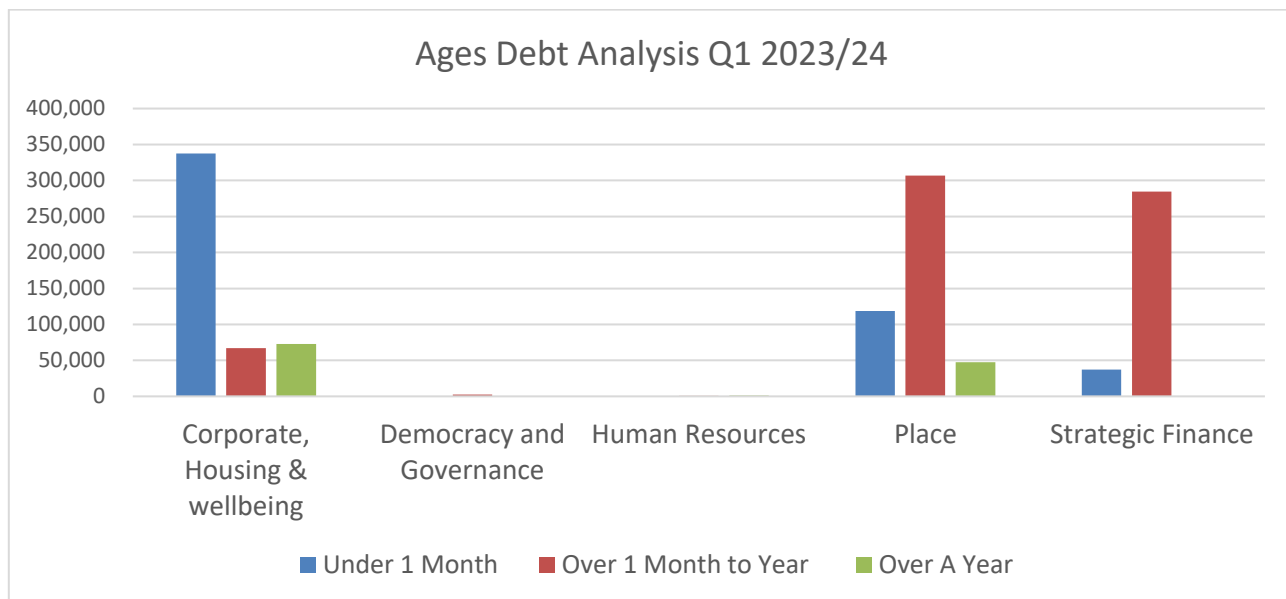
4.5.1 The MTFs agreed by Council in January 2023 included planned savings of £1.060m in 2023/24. As at 30 September, £0.270m (25.5%) had been delivered and a further £0.263m (24.8%) are reported as being on track to be delivered (rated green). Savings totalling £0.367m (34.6%) are at risk of not being 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 8.

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 September 2023. The total outstanding debt at this date was £1.277m. This compares to a total outstanding debt of £0.713 at 30 June 2023.



4.6.3 Of the outstanding debt, 39% is under one month. The total debt over one year is £0.121m. The Council’s debt recovery team will continue to chase these debts and initiate payment plans (instalments) wherever possible.

4.6.4 The total outstanding amount for Strategic Finance over a month is £0.284m of which £0.243m which relates to one invoice for a Section 106 contribution raised in June 2023.

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
- Appendix 8 Savings Monitoring