

Strategic Finance

1. Revenue Summary

Service	Year End Forecast at				Year End Forecast at	Change in Forecast
	Latest Budget £000	Quarter 2 £000	Actuals £000	Forecast Variance £000	Quarter 1 £000	Change in Forecast £000
Corporate Costs	3,331	1,725	(93)	(1,606)	2,410	(685)
Finance & Resources	223	431	91	208	297	134
Finance Services Client	1,024	1,187	803	164	1,024	163
Revenues And Benefits Client	1,078	1,078	12,590	0	1,078	0
Service Transformation	59	28	(20)	(31)	59	(31)
Total	5,714	4,449	13,372	(1,265)	4,868	(419)

Corporate Costs includes the budgets relating to treasury management activity and capital financing costs and the contingency budget for pay and other inflation.

2. Revenue Variances

At the end of Quarter 2 a net underspend of £1.265m is forecast across Strategic Finance. A breakdown of the reported variances is set out in the following table. Further detail is provided in the paragraphs below.

Service Area	Description	Details of Variances	£'000
Strategic Finance	Insurance	Increase in premises insurance costs due to inflation	73
	Finance	Additional cost of external audit fees	148
		Net Additional change in interest income due to change in investment activity	(627)
		Reduction in employers Pension Deficit costs as per pension fund triannual valuation / use of pension reserve	(877)
		Other Variances	18
		TOTAL	(1,265)

Insurance premiums are set annually. Insurance costs have increased in 2023/24 due to the rising costs of construction which have fed through to higher premiums for premises insurance, reflecting the increased costs of repairs or reconstruction.

The Council has now received the final invoice from the external auditors for the 2019/20 audits of the main statement of accounts and housing benefits audits. The fee for the main audit is set by Public Sector Audit Appointments Ltd (PSAA) who also oversee requests for additional fees. The schedule fee due to the external auditors for 2019/20 was £0.040m. A fee variation proposal was submitted to the PSAA by the external auditors for an additional £0.168m. After consideration of the proposal, the PSAA have agreed a variation of £0.119m taking the total fee to £0.159m. A total pressure of £0.148m is reported across both audits.

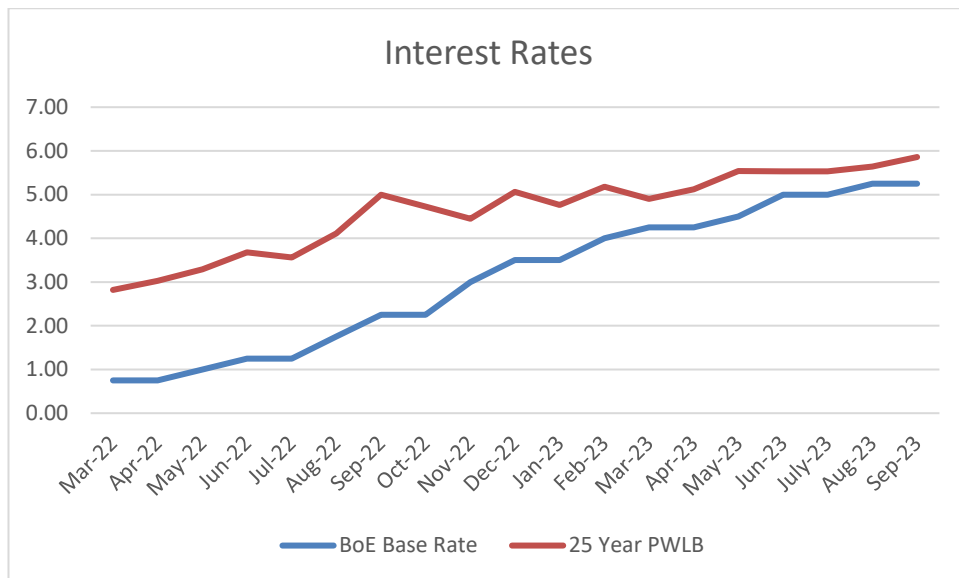
The Council holds a contingency budget for the annual pay award for 2023/24. The forecast includes an estimated additional cost of £0.400m against the Contingency budget in relation to the employers' pay offer. As the pay offer has now been finalised, a virement will be requested in Period 8 to transfer the contingency budget to individual cost centres. This additional cost will be funded on a one off basis from the pension reserve with the ongoing pressure managed through the budget setting process for 2024/25 onwards.

At 30 September 2023 the Council had external borrowing of £64.500m (£79.000m at 30 June 2023). As per the Treasury Management Strategy, the Treasury Management team continue to minimise the cost of carry (the difference between interest earned on deposits and the interest paid on borrowing) by utilising cash balances to reduce external borrowing.

As set out in the Treasury Management Mid Term Review, the Council will utilise funds currently invested in pooled investment funds to increase internal borrowing. This will reduce interest payable charges and increase interest received in the short term. A change in net interest is reported of £0.627m

The graph below shows the Bank Of England Base rate and Public Works Loans Board (PWLB) rate for new 25 year loans from March 2022 to September 2023. PWLB rates are based on gilt yields (UK Government Bonds) plus a margin specified by HM Treasury, currently 100 basis points. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

PWLB borrowing rates increased significantly in September 2022 following the mini budget announced by Kwasi Kwarteng, then Chancellor of the Exchequer. It was initially expected that gilt yields would fall to around 3% following the resignation of both the Chancellor and the Prime Minister. Although there was an initial drop, the inflation forecast and the Bank of England's decision to raise base rate has pushed PWLB rates above the levels recorded following the mini budget during the first quarter of 2023/24. Rates have remained at these levels during the second quarter of 2023/24.



An actuarial valuation of the pension fund assets and liabilities is undertaken every three years to set the employer contribution rates to the pension fund. The latest triannual valuation was completed as at 31 March 2022 and has set the employer contribution rates for three years from 1 April 2023 to 31 March 2026. The triannual valuation has resulted in an increase to the employer’s contribution rate for the Council from 18.2% to 19.1%. However, it has also decreased the annual lump sum paid in relation to past service cost deficit reflecting an increase in pension fund assets. The net saving in 2023/24, after taking into account the increase in contribution rate, is £0.877m.

3. Capital Investment Programme

Budget Responsibility		Services	Latest Budget 2023/24	Forecast Outturn 2023/24	Actual to date	Latest Budget 2024/25 (Including current rephasings & savings)	Latest Budget 2025/26 (Including current rephasings & savings)
			£'000	£'000	£'000	£'000	£'000
Director of Finance - Strategic Finance	Head of Finance - Strategic Finance	Capital Support Services	677	677	36	677	677
		West Herts Crematorium	0	0	455	0	0
		Hart Homes JV	5,025	0	0	3,130	0
		Capital Budget Contingency	833	833	0	(300)	0

Expenditure for the West Herts Crematorium will be recovered in full in quarter three from the West Herts Crematorium as this project has now completed.

The scheme detail is provided at Annex A.

Capital Investment Programme – Scheme Detail

Capital Scheme	Latest Budget 2023/24	Forecast Outturn 2023/24	Forecast Variance	Scheme Update
	£	£	£	
Capitalised Support Services				
Support Services	552,470	552,470	0	
Major Projects - FBP and QS	124,390	124,390	0	
West Herts Crematorium				
West Herts Crem Bedmond Road	0	0	0	Recharged to West Herts Crematorium in October 2023.
Hart Homes JV				
Land Transfer - Croxley View Phase 3	3,130,000	0	(3,130,000)	Service request for budget rephasing into 2024/25.
Land Transfer - Rear Of High St	760,000	0	(760,000)	
Land Transfer - Scheme A	605,000	0	(605,000)	
Land Transfer - Scheme B	530,000	0	(530,000)	Removed from Capital Programme in line with Hart Homes Development (Watford) LLP business plan.
Capital Budget Contingency				
Capital Contingency	832,931	832,931	0	
Total	6,534,791	1,509,791	(5,025,000)	