

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Wednesday, 6 March 2024

Report author: Chief Finance Officer

Title: Financial Monitoring Report 2023/24 - Period 10

1.0 Introduction

1.1 This report sets out the financial monitoring position for 2023/24 as at Period 10 (1 April to 31 January). This is the fourth 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 30 January 2024.

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 have been addressed through the Council's budget planning process for 2024/25 onwards and have been incorporated in the Medium Term Financial Strategy (MTFS) agreed by Council on 30 January 2024.

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 30 January 2024 is £20.301m. The year end forecast at Period 10 is £21.146m which is a net overspend of £0.545m compared to the latest budget.

1.4.2 The projected year end forecast has increased by £2.884m since the end of Period 8. However, this is predominantly due to the inclusion of the budget and forecast in relation to Croxley Business Park of £3.506m which will be met from the Croxley Reserve. The underlying position is therefore an improvement of £0.662m. 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 The underlying reduction to the forecast of £0.662m reduces the additional call on reserves. As a result, a contribution from the general fund is no longer forecast and this is now expected to remain at the risk assessed level of £2.000m at 31 March 2024. In addition, a reduction in the use of the Commercial Risk Reserve is forecast of £0.376m. The final use of reserves will be agreed by Council at year end when the finals position is known.

Revenue Account 2023/24				
Service Area	Original Budget	Latest Budget	Forecast	Variance to Latest Budget
	£'000	£'000	£'000	£'000
Corporate, Housing & Wellbeing Place	5,735	6,407	7,186	778
Democracy, Strategy and Initiatives	188	5,129	7,396	2,267
Strategic Finance	3,925	4,130	4,146	16
	5,114	4,934	2,419	(2,516)
Net Cost of Service	14,962	20,602	21,146	545
Funded By:				
Planned use of Reserves	(632)	(6,272)	(5,896)	376
Use of Economic Impact Reserve	0	0	(990)	(990)
Gap funded from General Reserves	(70)	(70)	0	70
Taxation & Non Specific Grants	(14,260)	(14,260)	(14,260)	0
Total Funding	(14,962)	(20,601)	(21,146)	(545)

1.5 Capital Summary

1.5.1 The original Capital Investment Programme for 2023/24 was agreed by Council on 31 January 2023. The latest agreed budget is £33.885m which was agreed by Council on 30 January 2024.

Budget	Latest Budget	Forecast	Variance
	£000	£000	£000
Corporate, Housing and Wellbeing Place	11,742	8,098	(3,644)
Strategic Finance	20,956	20,915	(41)
	1,188	1,188	-
Total Capital Investment Programme	33,885	30,201	(3,684)

1.5.2 The year end forecast is £30.201m. This is a variance of £3.684m, the majority of this relates to reprofiling of the Town Hall Quarter.

1.5.3 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 – Period 10 and note both the revenue and capital forecasts for 2023/24.

3.2 To make any recommendations to Cabinet and/or Council.

Further information:

Pritesh Shah

Pritesh.Shah@threerivers.gov.uk

Report approved by:

Hannah Doney, Chief Finance Officer

Hannah.Doney@watford.gov.uk

4.0 **Detailed proposal**

4.1 **Revenue Budget 2023/24**

4.1.1 The latest net revenue budget is £20.602m. The year end forecast of £21.147m and resulting variation to budget of £0.545m is set out by service area in the following table. Budget pressures continue to be driven by the external economic environment.

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	1,810	1,787	1,781	(22)
	Housing and Wellbeing	3,405	3,995	2,640	591
	ICT and Shared Services	1,193	1,403	1,542	210
Place	Environment	8,020	9,716	8,698	1,696
	Planning, Infrastructure and Economic Development	1,595	1,714	903	119
	Property and Asset Management	(4,485)	(4,034)	(3,148)	452
Democracy, Strategy and Initiatives	Corporate Strategy and Communications	1,401	1,391	1,103	(10)
	Democracy and Governance	2,136	2,162	1,527	26
	Human Resources	593	593	541	0
Strategic Finance		4,934	2,419	4,789	(2,516)
Total		20,602	21,147	20,376	545

- 4.1.2 Within Housing and Wellbeing, there is a net forecast pressure of £0.591m. Within this, there is a pressure of £0.814m in relation to temporary accommodation due to an increase in the number of people being supported and increasing cost of providing accommodation. 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 £1.320m of which £1.1m is brought forward from 2022/23.
- 4.1.4 Within the net underspend of £2.516m for strategic finance, an underspend of £0.877m continues to be reported 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.
- 4.1.5 Additional dividend income is also reported in relation to the Council's joint venture, Watford Health Campus Partnership LLP, of £1.173m. This relates to the distribution of retained profits.
- 4.1.6 Further detail on the revenue forecast and reported variations to budget are set out in Appendices 1 to 4.

4.1.7 In order to address the in year overspend a number of corporate spending controls have been put in place:

- Recruitment freeze (exceptions process in place for key posts)
- Minimising use of agency staff, interim posts and consultancy
- Minimising overtime
- Contract procurements should be delivered within existing budgets
- Identify opportunities to stop or pause activities and initiatives to reduce spend on non-essential matters

4.1.8 It is expected that these measures will continue to have an impact on managing the in year pressures. 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 reflect the changes agreed by Council on 30 January 2024.

Budget		Latest Budget 2023/24	Forecast Outturn 2023/24	Actual to date	Latest Budget 2024/25	Latest Budget 2025/26
		£'000	£'000	£'000	£'000	£'000
Corporate, Housing & Wellbeing Services	ICT & Shared Services	535	435	300	722	922
	Customer & Corporate Services	9,848	4,783	3,000	16,131	30
	Housing & Wellbeing	1,359	2,880	1,122	343	250
Place	Planning, Infrastructure & Economy	748	723	246	1,170	705
	Property & Asset Management	17,204	17,041	11,655	12,058	7,260
	Environment	3,004	3,152	1,529	3,047	666
Strategic Finance		1,188	1,188	-	3,807	677
TOTAL CURRENT CAPITAL PROGRAMME		33,885	30,201	17,852	37,277	10,510

4.2.2 The forecast year end position of £30.201m is £3.684m lower than the latest budget of £33.885m. Actual spend as at the 31 January 2024 was £17.852m.

4.2.3 As has been noted throughout the 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 the impact 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	Balance at 1 April 2023 £000	Latest Budgeted use of reserves £000	Forecast Variance £000	Balance at 31 March 2024 £000
Specific Earmarked Reserves	(35,065)	6,273	(376)	(29,168)
Economic Impact Reserve	(990)	0	990	0
General Fund	(2,000)	69	(69)	(2,000)
Total	(38,055)	6,342	545	(31,168)

- 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. It is currently forecast to be at this level at the 31 March 2024. This is an improvement of £0.285m from the position previously reported.

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 since the last report. 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 4.25% on 1 April 2023, and was subsequently increased in May, June and August 2023 to 5.25%. The Monetary Policy Committee has subsequently maintained base rate at 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 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 monitoring position includes a forecast for additional net income of £0.713m 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**

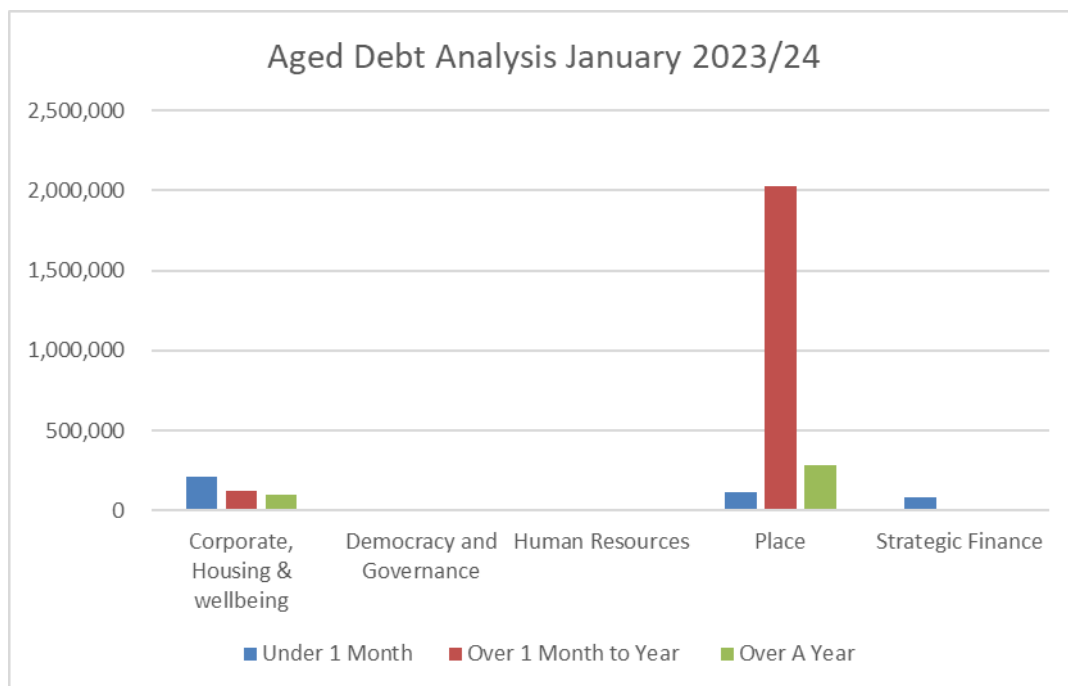
4.5.1 The MTFs agreed by Council in January 2023 included planned savings of £1.060m in 2023/24. There has been no change to the position reported to the end of period 8. Savings of £0.587m (55.4%) have been delivered and a further £0.313m (29.5%) are reported as being on track to be delivered (rated green). Savings totalling £0.025m (2.4%) are at risk of not being delivered or not delivered in full (rated amber). One 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 graph below sets out the aged debt by service area as at 31 January 2024. The total outstanding debt was £2.923m. This compares to a total outstanding debt of £0.860m at 30 November 2023. The significant increase relates to £1.134m outstanding for CIL income and £0.370m relating to the S106 income, both amounts are within the Place directorate.



4.6.3 Of the outstanding debt, 14% is under one month past due, while 73% is between one month and 12 months. The remaining 13% is over 12 months old. 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 Chief Finance Officer 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 General Balances and Earmarked Reserves
- Appendix 7 Key Budgetary Risks
- Appendix 8 Savings Monitoring

Background Papers

Financial Monitoring Report to 30 November 2023 – Finance Scrutiny Committee
January