

Strategic Finance

1. Revenue Summary

Service	Latest Budget £000	Year End Forecast	Actuals £000	Forecast Variance £000	Year End Forecast at P8 £000	Change in Forecast £000
		at Period 10 £000				
Finance & Resources	223	404	357	181	431	(27)
Finance Services Client	1,024	1,227	877	204	1,187	40
Revenues And Benefits Client	1,078	1,078	6,020	0	1,078	0
Service Transformation	59	28	(19)	(31)	28	0
Corporate Costs	2,551	(318)	(2,446)	(2,869)	1,685	(2,003)
Total	4,934	2,419	4,789	(2,516)	4,409	(1,990)

Corporate Costs includes the budgets relating to treasury management activity and capital financing costs and the contingency budget for pay and other inflation. The change in forecast primarily relates to additional dividend income of £1.173m and the allocation of the cost of the 2023/24 pay award (£0.780m) to pay budgets across the Council, previously reported against the Corporate Contingency.

2. Revenue Variances

At the end of Quarter 2 a net underspend of £2.516m 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.

Description	Details of Variances	£'000
Insurance	Increase in premises insurance costs due to inflation	73
Finance	Additional cost of external audit fees	148
	Net Additional change in interest income / borrowing costs due to change in investment activity	(713)
	Additional dividend income from Watford Health Campus Partnership LLP - Riverwell joint venture	(1,173)
	Reduction in employers Pension Deficit costs as per pension fund triannual valuation / use of pension reserve	(877)
	Other Variances	26
	TOTAL	(2,516)

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.

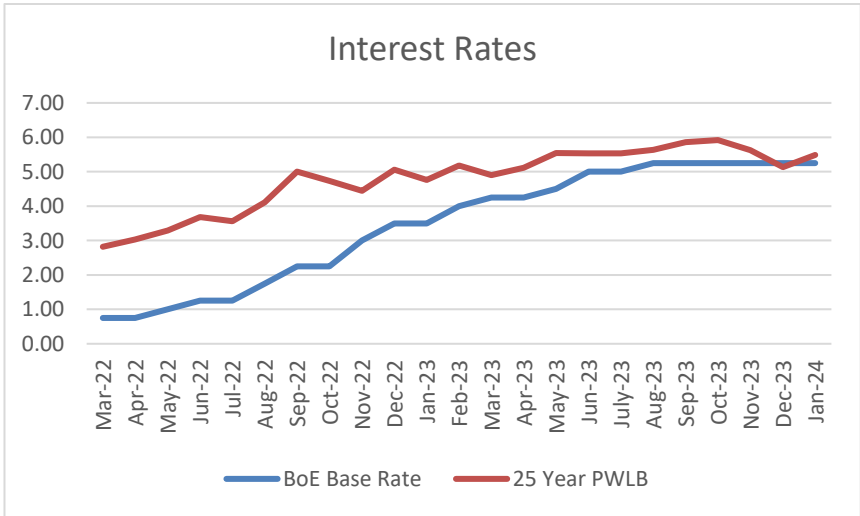
The Council has now received the final invoice from the external auditors for the 2019/20 audits of the main statement of accounts and housing benefits audits. The fee for the main audit is set by Public Sector Audit Appointments Ltd (PSAA) who also oversee requests for additional fees. The schedule 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.

At 31 January 2024 the Council had external borrowing of £47.000m (£64.500m at 30 November 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 £0.713m

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 January 2024. 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 into the fourth quarter of 2023/24.



At a meeting of the board of Watford Health Campus Partnership LLP it was agreed to distribute an element of retained profits from within the partnership in addition to the expected profit distribution arising from the sale of the 'Central Site' to the West Hertfordshire Teaching Hospitals Trust (WHTHT). This was made possible as a result of an improved cash position within the joint venture. This has increased the profits distributed in year by £1.173m and was not previously included in the forecast for dividends and interest earned from the Council's joint ventures.

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

Services	Latest Budget 2023/24 £'000	Forecast Outturn 2023/24 £'000	Actual to date £'000	Latest Budget 2024/25 £'000	Latest Budget 2025/26 £'000
Capital Support Services	677	677	0	677	677
Hart Homes JV	0	0	0	3,130	0
Capital Budget Contingency	511	511	0	0	0

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 £	Actual 2023/24 £	Scheme Update
Capitalised Support Services					
Support Services	552,470	552,470	0	0	
Major Projects - FBP and QS	124,390	124,390	0	0	
Capital Budget Contingency					
Capital Contingency	510,931	511,000	69	0	
Total	1,187,791	1,187,860	69	(0)	