

Part A

**Report to:** Finance Scrutiny Committee

**Date of meeting:** Monday, 21 November 2022

**Report author:** Head of Finance

**Title:** Financial Monitoring Report 2022/23 - Quarter 2

## 1.0 Summary

1.1 This report sets out the financial monitoring position for 2022/23 as at Quarter 2 (1 April to 30 September 2022). This is the second report of the financial year and focuses on the forecast year end position compared to the original budget which was set in January 2022.

1.2 Since the budget was set, the economic forecast for 2022/23 and beyond has changed significantly. Rising inflation presents a significant risk to the Council's budget in 2022/23 and will have an ongoing impact across the Medium Term Financial Strategy (MTFS). The potential financial impact of inflationary risks are set out in Section 4 below and further detail is provided in appendices 1 to 4.

## 1.3 Revenue Summary

1.3.1 The following table sets out the original budget of £13.734m which was agreed at Council on 24 January 2022, the latest budget which includes the budget carry forwards as reported at Cabinet on 11 July 2022, and the year end forecast at 30 June 2022. The resulting forecast variance to budget is £0.173m. This is an improvement of £0.125m from the forecast to 30 June 2022 when a variance of £0.298m was reported.

Revenue Account 2022/23				
Service Area	Original Budget £'000	Latest Budget £'000	Forecast £'000	Variance to Latest Budget £'000
Corporate, Housing & Wellbeing Place	5,538 (51)	6,298 526	5,278 1,683	(1,020) 1,158
Democracy, Strategy and Initiatives	3,961	4,004	4,103	100
Strategic Finance	4,287	4,300	4,235	(64)
<b>Net Cost of Service</b>	<b>13,734</b>	<b>15,127</b>	<b>15,300</b>	<b>173</b>
Funded By:				
Planned use of Reserves	(49)	(1,442)	(1,615)	(173)
Taxation & Non Specific Grants	(13,685)	(13,685)	(13,685)	0
<b>Total Funding</b>	<b>(13,734)</b>	<b>(15,127)</b>	<b>(15,300)</b>	<b>(173)</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.

## 1.4 Capital Summary

1.4.1 The original Capital Investment Programme for 2022/23 was agreed by Council on 25 January 2022. The agreed budget was £79.210m. The latest agreed budget is £116.879m and includes £37.669m carried forward from 2021/22 as reported to Cabinet on 11 July 2022.

<b>Budget Responsibility</b>	<b>Latest Budget 2022/23 £'000</b>	<b>Forecast Year End Position £'000</b>	<b>Actual to date £'000</b>
Executive Director of Corporate, Housing & Wellbeing Services	19,985	15,260	6,372
Executive Head of Strategy & Initiatives (Communications, Partnerships & Community)	65	0	0
Executive Director of Place	58,772	18,070	2,808
Director of Finance - Strategic Finance	38,057	13,397	10,650
<b>TOTAL CURRENT CAPITAL PROGRAMME</b>	<b>116,879</b>	<b>46,727</b>	<b>19,831</b>

1.4.2 Following a review of the profile of expenditure for 2022/23, the forecast year end position is £46.727m. Requests for rephasing of budgets to reflect revised expenditure profiles will be presented to Council in January.

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 2022/23 – Quarter 2, and note both the revenue and capital forecasts for 2022/23.

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

**Further information:**

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#### 4.0 Detailed proposal

##### 4.1 Economic Context

4.1.1 The Financial Monitoring Report - Quarter 1 set out the economic context within which the 2022/23 budget was set. As noted in the Quarter 1 report, since the budget was set the economic outlook has significantly declined. The latest Monetary Policy Report, published on 3 November 2022, sets out that inflation is now expected to peak at 11.0% in the last quarter of 2022 (previously 13.0%) and fall sharply to some way below the 2% target in two years' time, and further below the target in three years' time to a low of 0.02%. Inflation, measured by twelve-month CPI, was 10.1% in September 2022 (9.9% in August).

4.1.2 On 3 November 2022 the Bank of England's Monetary Policy Committee (MPC) raised the Bank of England Base rate by 0.75% to 3.0%. The [MPC report](#), which accompanied the increase, states that inflation is too high and that 'high energy, food and other bills are hitting people hard' and makes clear that the committee will raise interest rates to bring inflation back to the 2% target.

4.1.3 The economy is now expected to remain in recession throughout 2023 and 2024 and then grow slowly. The Monetary Policy Committee's forecast does not incorporate any further measures that may be announced in the Autumn Statement scheduled for 17 November.

4.1.4 The combination of high inflation, rising interest rates, shrinking economy, and rise in cost of borrowing for government creates a challenging environment for financial planning for 2023/24 onwards.

4.1.5 The impact of rising inflation and interest rates in the current financial year is set out the paragraphs below.

##### 4.2 Revenue Budget 2022/23

4.2.1 The latest net revenue budget is £15.127m. The year end forecast of £15.300m and resulting variation to budget of £0.173m 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	1,745	1,830	82	85
	Housing and Wellbeing	3,541	2,358	(593)	(1,184)
	ICT and Shared Services	1,012	1,090	676	78
Place	Environment	7,784	8,517	3,960	734
	Planning, Infrastructure and Economic Development	1,393	1,206	134	(187)
	Property and Asset Management	(8,651)	(8,040)	(6,198)	611
Corporate Strategy and Communications		1,452	1,570	1,027	118
Democracy and Governance		2,017	2,029	1,001	12
Human Resources		535	504	296	(31)
Strategic Finance		4,300	4,235	4,158	(64)
<b>Total</b>		<b>15,127</b>	<b>15,300</b>	<b>4,544</b>	<b>173</b>

*\* Latest budget has been updated to reflect final budget realignments as a result of the senior leadership review.*

- 4.2.2 There are two main areas of forecast overspend, both within the Place Directorate, partially offset by forecast underspends across the wider Council. These are within the Environment Service and Property and Asset Management Service.
- 4.2.3 The forecast overspend of £0.734m within the Environment Service includes a forecast pressure of £0.463m due to loss of income from the SLM contract, £0.112m of addition parking enforcement costs, which are funded from the CPZ reserve and £0.096m in relation to additional electricity costs in the new market. As noted in the Quarter 1 report, the monthly cost of electricity in the new market has increased from £1,500 to £2,000 per month to £10,000 per month since the beginning of the year. This is a result of increased energy costs and increased usage. This continues to be closely monitored.
- 4.2.4 Across the wider Council, the Council's energy contract, which pre-purchased gas and electricity in bulk and at a lower cost, has protected budgets from the impact of increased energy costs in the short term. The Energy Prices Bill was introduced to Parliament on 12 October 2022 and provides the legislative framework to deliver the government's Energy Price Guarantee and Energy Bill Relief Scheme. These schemes will apply to all domestic and non-domestic consumers including the Council. These two measures mean that it is not currently anticipated that there will be further pressure on energy budgets for Council properties during the year.

- 4.2.5 The forecast overspend of £0.611m within the Property and Asset Management Service relates to a £0.360m loss of rental income from core investments in relation to service charges, additional contract management costs of £0.135m for the Council's rental portfolio, and £0.080m additional staffing costs due to the use of interim staff to fill key vacancies which is a result of the challenging recruitment market in this specialist area. It may be possible to reduce the forecast pressure on staffing costs as the year progresses and the use of interim staff reduces.
- 4.2.6 Further detail on the revenue forecast and reported variations to budget are set out in Appendices 1 to 4.
- 4.2.7 The forecast year end position accounts for the impact of the 2022/23 pay award. The unions submitted the 2022 pay claim, effective from 1 April 2022, which would see individual council employees receive the higher of a £2,000 rise or the current rate of RPI (presently 12.3%). An offer was made by the National Employers Panel on 25 July 2022.
- 4.2.8 The offer included an increase of £1,925 for all employees and an increase in allowances of 4.04% effective from 1 April 2022 plus an increase of one day to all employees' annual leave entitlement from 1 April 2023. Although this offer was rejected by the Unite Union following a ballot of members, it was agreed on 1 November 2022 with the support of the GMB and Unison unions.
- 4.2.9 The offer made by the National Employers Panel is significantly above the 2.0% increase originally allowed within the budget for 2022/23 and represents an increase to the pay budget of around 5.9%.

### **4.3 Capital Investment Programme 2022/23 to 2024/25**

- 4.3.1 The Capital Investment Programme was agreed by Council in January 2022. The original budget for 2022/23 was £79.210m. The latest budget has been updated to include the reprofiling of £37.669m from 2021/22 into 2022/23 as agreed by Council in July 2022. The latest forecast is set out in the table below:

Budget Responsibility		Latest Budget 2022/23 (Excluding rephasings for approval)	Forecast Outturn	Actual to date	Latest Budget 2023/24 (Excluding rephasings for approval)	Latest Budget 2024/25 (Excluding rephasings for approval)
		£'000	£'000	£'000	£'000	£'000
Executive Director of Corporate, Housing & Wellbeing Services	Associate Director of ICT & Shared Services	1,413	1,413	210	860	530
	Associate Director of Customer & Corporate Services	17,029	12,720	5,498	12,090	0
	Associate Director of Housing & Wellbeing	1,543	1,127	664	350	350
Executive Head of Strategy & Initiatives (Communications, Partnerships & Community)		65	0	0	0	0
Executive Director of Place	Associate Director of Planning, Infrastructure & Economy	3,417	1,498	456	1,050	0
	Associate Director of Property & Asset Management	40,507	11,366	1,325	5,182	2,023
	Associate Director of Environment	14,848	5,206	1,027	1,531	1,367
Director of Finance - Strategic Finance	Head of Finance - Strategic Finance	38,057	13,397	10,650	677	677
<b>TOTAL CURRENT CAPITAL PROGRAMME</b>		<b>116,879</b>	<b>46,727</b>	<b>19,831</b>	<b>21,740</b>	<b>4,947</b>

- 4.3.2 The forecast year end position of £46.727m is £70.152m 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, Woodside Sports Village, the Town Hall Quarter and investment in Watford Business Park.
- 4.3.3 A request to rephrase these budgets will be included in the Quarter 3 monitoring report to Cabinet. A detailed scheme breakdown is provided in appendices 1 to 4.
- 4.3.4 Rising Inflation poses a significant risk to the affordability of the Capital Investment Programme. The Council is particularly exposed to this risk where schemes are still at the feasibility or pre-tender stage. Where schemes are already within contract this provides some protection against the risk of price increases. However, there is an increased risk of contractor or sub-contractor failure in light of the inflationary pressures on businesses. Mitigation measures are already in place to protect the Council through the tender and contracting process, including assessment of the financial sustainability of contractors.
- 4.3.5 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 2022/23 forecast capital investment is set out in appendix 5.
- 4.3.6 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).

4.3.7 The Council's primary lender of capital finance is the Public Works Loans Board (PWLB). PWLB interest rates are linked to Government Gilt rates which are currently volatile. The rise in government borrowing costs is also driving up the cost of borrowing for local authorities. Since 1 April 2022, the interest rate on 25 year borrowing has risen from 2.84% to 4.97% at 30 September 2022 resulting in 75% increase in the interest payable.

4.3.8 Rising project delivery costs and rising borrowing costs pose a significant risk to the affordability of the capital programme this will be considered in the budget setting process. Actions to mitigate the increased cost pressures include undertaking a review of budget carry forwards to confirm if the budget is required, removing residual budgets as projects are ending, and ensuring that budgets are matched to achievable delivery timescales.

#### 4.4 General Fund and Earmarked Reserves

4.4.1 The following table sets out the latest forecast for the General Fund and Earmarked Reserves.

Reserve Type	Balances at 1 April 2022	Movement in Year	Balance at 31 March 2023
Specific Earmarked Reserves	(25,677)	1,332	(24,345)
Economic Impact Reserve	(1,744)	283	(1,461)
General Fund	(2,000)	0	(2,000)
<b>Total</b>	<b>(29,421)</b>	<b>1,615</b>	<b>(27,806)</b>

4.4.2 The Council's risk assessed level for the General Fund is £2.000m. The General Fund is forecast to remain at this level for 2022/23 and over the MTFS.

4.4.3 The Economic Impact Reserve is held to smooth the impact of a surplus or deficit against the budget. The original budget for 2022/23 included a funding gap of £0.089m which will be funded by a contribution from this reserve.

4.4.4 Earmarked Reserves are used to support service expenditure and projects. A detailed breakdown of the forecast for Earmarked Reserves is provided at appendix 6.

4.4.5 In January 2022, Council agreed the creation of a pump-priming reserve of £0.500m to support the Council's Sustainability Strategy. This reserve was carved out of the Croxley Park Reserve following the strong performance of the investment during 019/20 and 2020/21. The new sustainability reserve is now included within Earmarked Reserves.

## **4.5 Strategic Finance**

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

4.5.2 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.

4.5.3 The Bank of England base interest rate was 0.75% on 1 April 2022 and has increased gradually to 2.25% at 30 September 2022 (3% at 3 November 2022) as the Bank of England takes measures to manage inflation. 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, as noted above, 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 rates.

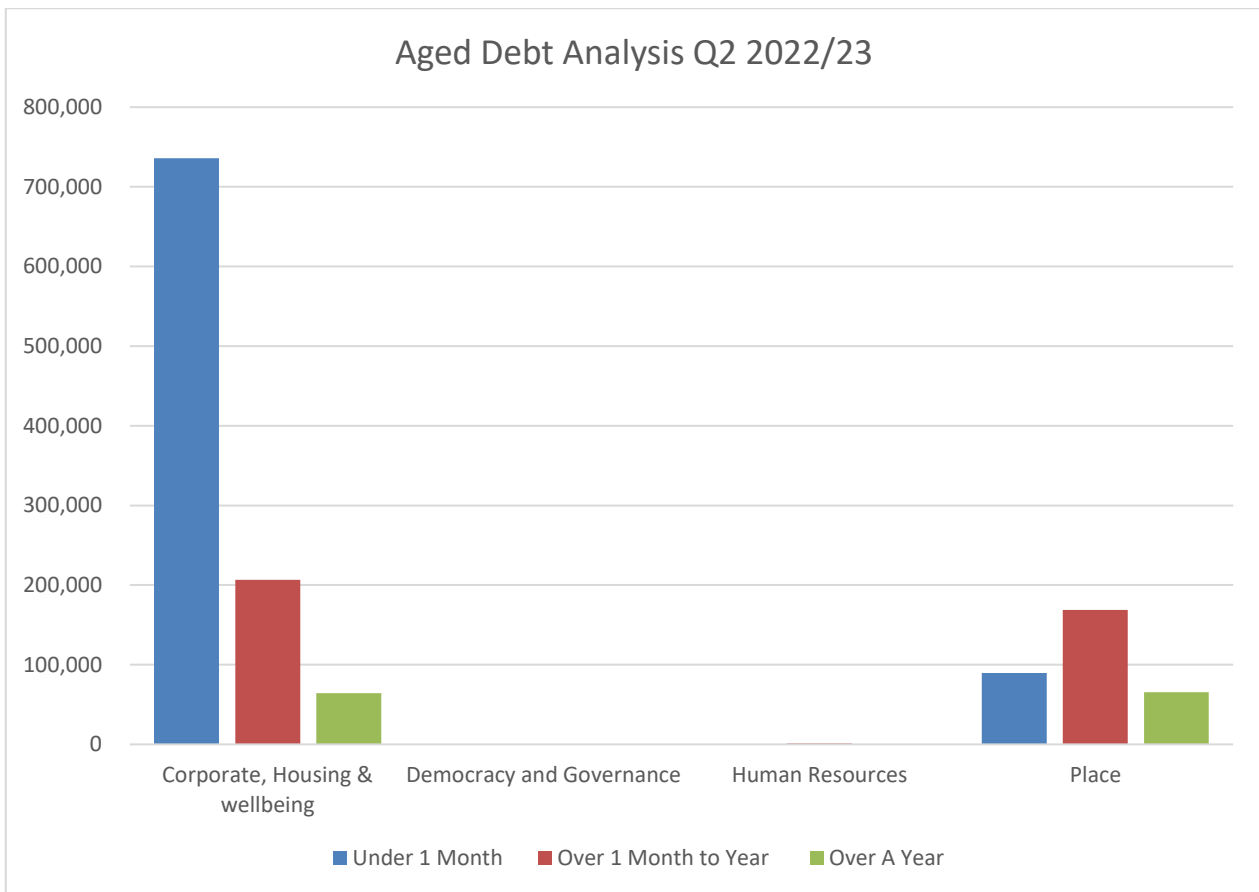
4.5.4 Further detail is provided in appendix 4.

## **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 2022. The total outstanding debt at this date was £1.160m. This compares to a total outstanding debt of £1.229m at 30 September 2021. Debt has reduced by £0.020m from £1.080m at the 30 June 2022.

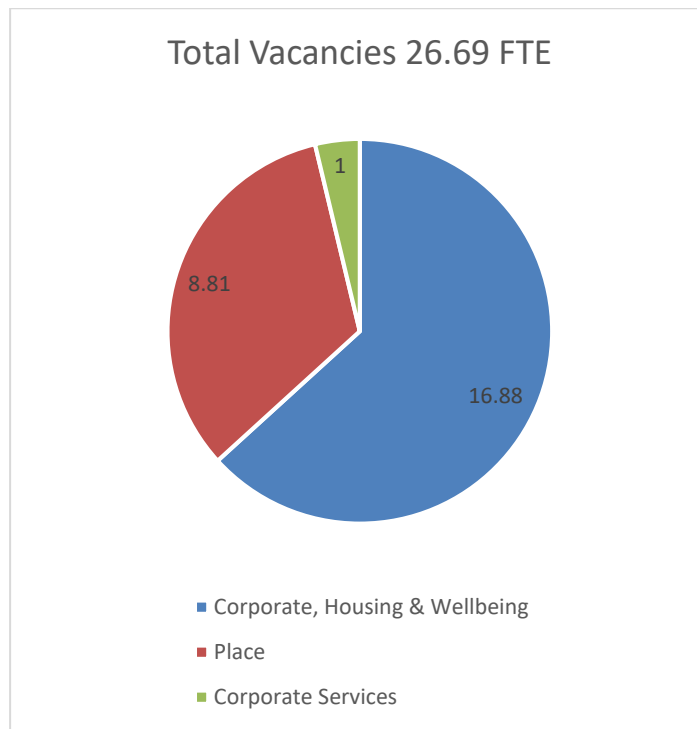




4.6.3 Of the outstanding debt, £0.826m (71%) is under one month and is expected that the majority of these debt will be settled. The total debt over one year is £061.m (5%). The Council’s debt recovery team will continue to chase these debts and initiate payment plans to enable debtors to pay by instalments wherever possible.

#### 4.7 Vacancy Monitoring

4.7.1 A major risk of non-delivery of service is where key staff leave the Council’s employ and there is a delay or difficulty in recruiting suitable candidates to fill the vacant post. The graph below summarises the level of vacancies at the end of September 2022 with a detailed analysis by service within appendices 1 to 4. The total vacancies at 30 September were 26.69 FTE. This is a decrease from 34.0 FTE at the end of Quarter 1.



## 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