

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Monday, 9 January 2023

Report author: Head of Finance

Title: Financial Monitoring Report Period 8 - November 2022/23

1.0 Summary

1.1 This report sets out the financial monitoring position for 2022/23 as at Period 8 (1 April to 30 November 2022). This is the third 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 is 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 November 2022. The resulting forecast variance to budget is £0.044m. This is an improvement of £0.129m from the forecast to 30 September 2022 when a variance of £0.173m was reported.

Revenue Account 2022/23				
Service Area	Original Budget £'000	Latest Budget £'000	Forecast £'000	Variance to Latest Budget £'000
Corporate, Housing & Wellbeing	5,538	6,298	5,139	(1,159)
Place	(51)	588	2,200	1,612
Democracy, Strategy and Initiatives	3,961	3,942	4,010	69
Strategic Finance	4,287	4,300	3,822	(477)
Net Cost of Service	13,734	15,127	15,171	44
Funded By:				
Planned use of Reserves	(49)	(1,442)	(1,486)	(44)
Taxation & Non Specific Grants	(13,685)	(13,685)	(13,685)	0
Total Funding	(13,734)	(15,127)	(15,172)	(44)

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.

Directorate / Service	Latest Budget 2022/23 £000's	Forecast Outturn 2022/23 £000's	Actual to Date £000's
Director of Partnerships - Corporate, Housing & Wellbeing Services	19,985	15,260	8,018
Director of Performance	65	0	0
Executive Director of Place	58,772	17,422	3,978
Director of Finance - Strategic Finance	38,057	13,397	11,311
TOTAL CURRENT CAPITAL PROGRAMME	116,879	46,080	23,306

1.4.2 Following a review of the profile of expenditure for 2022/23, the forecast year end position is £46.080m. 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 – Period 8 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 As noted in the Financial Monitoring Reports for Quarter 1 and Quarter 2, the current economic environment is starkly different from the economic outlook when the original budget was set in January 2022. Inflation has remained pervasively high throughout the year with November CPI at 10.7% (11.1% in October).

4.1.2 There is some evidence that inflation is starting to slow with the lowest month on month change in the current financial year of 0.4% recorded between October 2022 and November 2022. This is on the back of significant increases in interest rates driven by increases in the Bank of England base rate which has increased from 0.75% at the beginning of the financial year to 3.0% at 30 November. The base rate has subsequently increased by a further 0.5% to 3.5% on 15 December 2022 as the bank's Monetary Policy Committee (MPC) attempts to return inflation to its 2% target.

4.1.3 The impact of rising inflation and interest rates in the current financial year is set out the paragraphs below. Critically, a slowing in inflation will reduce future price rises but will not return prices to previous levels meaning that higher prices are baked into expenditure in future years.

4.2 Revenue Budget 2022/23

4.2.1 The latest net revenue budget is £15.127m. The year end forecast of £15.171m and resulting variation to budget of £0.044m 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	1,767	1,118	23
	Housing and Wellbeing	3,541	2,281	(325)	(1,260)
	ICT and Shared Services	1,012	1,090	974	78
Place	Environment	7,784	8,517	5,274	734
	Planning, Infrastructure and Economic Development	1,455	1,540	538	85
	Property and Asset Management	(8,651)	(7,857)	(8,407)	794
Corporate Strategy and Communications		1,390	1,469	1,116	79
Democracy and Governance		2,017	2,029	1,312	12
Human Resources		535	512	426	(23)
Strategic Finance		4,300	3,822	8,304	(477)
Total		15,127	15,171	10,331	44

- 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 additional parking enforcement costs, which are funded from the CPZ reserve and £0.096m in relation to additional electricity costs in the new market previously reported.
- 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, protected budgets from the impact of increased energy costs during the first half of the year. The forecast at Period 8 includes a projected overspend of £0.043m for utility costs within the Property and Asset Management Service overspend of £0.794m.
- 4.2.5 Other overspend within this service include £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. A further variation of £0.080m is reported. Project costs of £0.120m have been allocated from agreed budgets held in Strategic Finance.
- 4.2.6 As previously reported, the forecast year end position includes the impact of the 2022/23 pay award which was agreed on 1 November 2022 and represented an increase to the pay budget of 5.9% compared to an allowance of 2% incorporated into the budget.

4.2.7 Further detail on the revenue forecast and reported variations to budget are set out in Appendices 1 to 4.

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	Forecast Outturn 2022/23	Actual to date	Latest Budget 2023/24 (Including rephasings & savings)	Latest Budget 2024/25 (Including rephasings & savings)	Latest Budget 2025/26 (Including rephasings & savings)
		£	£	£	£	£	£
Executive Director of Corporate, Housing & Wellbeing Services	Associate Director of ICT & Shared Services	1,413	1,413	256	243	530	0
	Associate Director of Customer & Corporate Services	17,029	12,720	6,968	14,562	337	0
	Associate Director of Housing & Wellbeing	1,543	1,127	794	250	250	0
Executive Head of Strategy & Initiatives (Communications, Partnerships & Community)		65	0	0	65	0	0
Executive Director of Place	Associate Director of Planning, Infrastructure & Economy	3,417	1,985	899	1,573	250	0
	Associate Director of Property & Asset Management	40,507	10,166	1,747	21,209	6,103	5,399
	Associate Director of Environment	14,848	5,271	1,332	3,831	7,229	0
Director of Finance - Strategic Finance	Head of Finance - Strategic Finance	38,057	13,397	11,311	8,702	677	0
TOTAL CURRENT CAPITAL PROGRAMME		116,879	46,080	23,306	50,435	15,376	5,399

4.3.2 The forecast year end position of £46.080m is £70.799m 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 rephase these budgets is included in the Financial Planning Report 2023/24 to 2025/26 elsewhere on the agenda for Finance Scrutiny Committee, and presented to Cabinet and Council in January 2023 for approval. The Financial Planning Report also includes proposals for 2025/26 and the outcome of the detailed review of the capital programme that has been undertaken during the course of the year. A detailed scheme breakdown is provided in appendices 1 to 4.

4.3.4 The forecast spend for 2022/23 has reduced by £0.647m from the position reported to 30 September 2022 due to reprofiling schemes within the Place Directorate.

- 4.3.5 As previously reported, ongoing 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.
- 4.3.6 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.
- 4.3.7 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).
- 4.3.8 The Council's primary lender of long term capital finance is the Public Works Loans Board (PWLB). PWLB interest rates are linked to Government Gilt rates. The rise in government borrowing costs is also driving up the cost of borrowing for local authorities. In the last report it was noted that since 1 April 2022 interest rates payable had increased by 75%, rising to 4.97% for 25 year lending. Since then, there has been some stabilisation of the gilt markets but borrowing costs remain high and were at 4.48% on 30 November 2022.
- 4.3.9 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 budget carry forwards to confirm if the budget is required, removing residual budgets as projects are ending, and ensuring that budgets are matched budgets 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	(24,431)	1,332	(23,099)
Economic Impact Reserve	(1,744)	154	(1,590)
General Fund	(2,000)	0	(2,000)
Total	(28,175)	1,486	(26,689)

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 was planned to be funded from 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.

4.5 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 the year to 30 November. The interest earned on the investments made by the Council supports the funding of the services it provides.

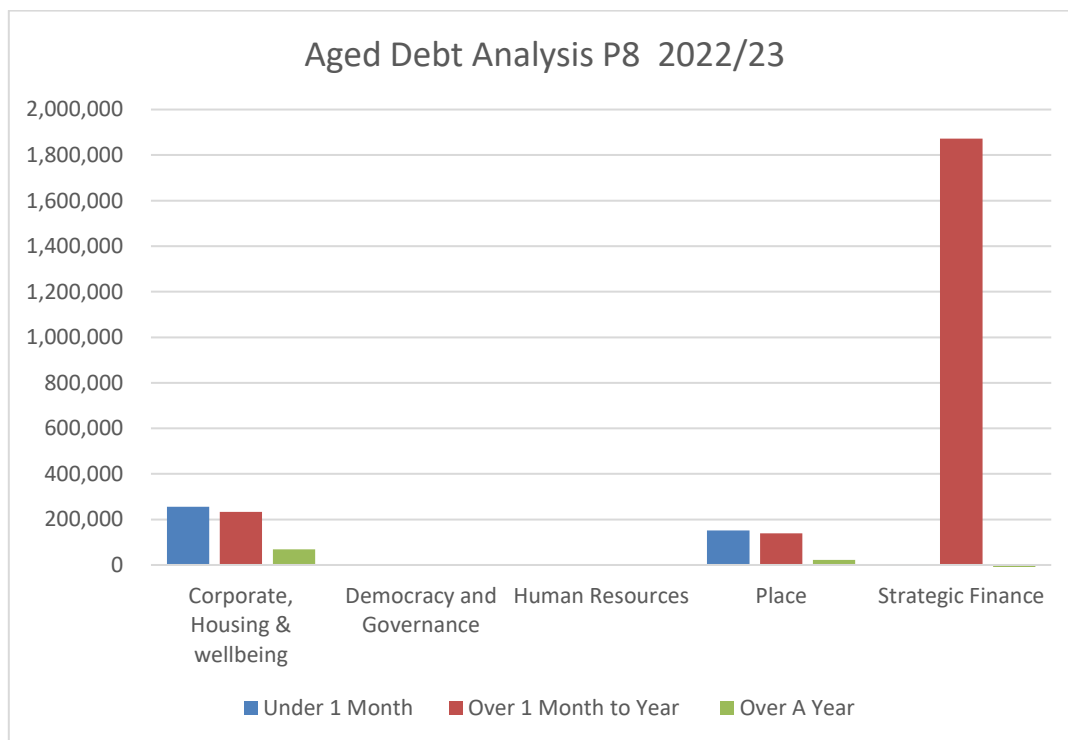
4.5.3 The Bank of England base interest rate was 0.75% on 1 April 2022 and has increased gradually to 3.0% at 30 November 2022 as the Bank of England takes measures to manage inflation. The increase in base rate has fed through into increased market returns for short-term deposits which will have a positive impact on interest earned. However, 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 following the mini budget on 23 September 2022. 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. The latest forecast for cash projections indicates that additional borrowing will need to be taken before the end of the year resulting in an increase in interest payable. A forecast overspend of £0.150m is therefore reported for capital financing costs.

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.

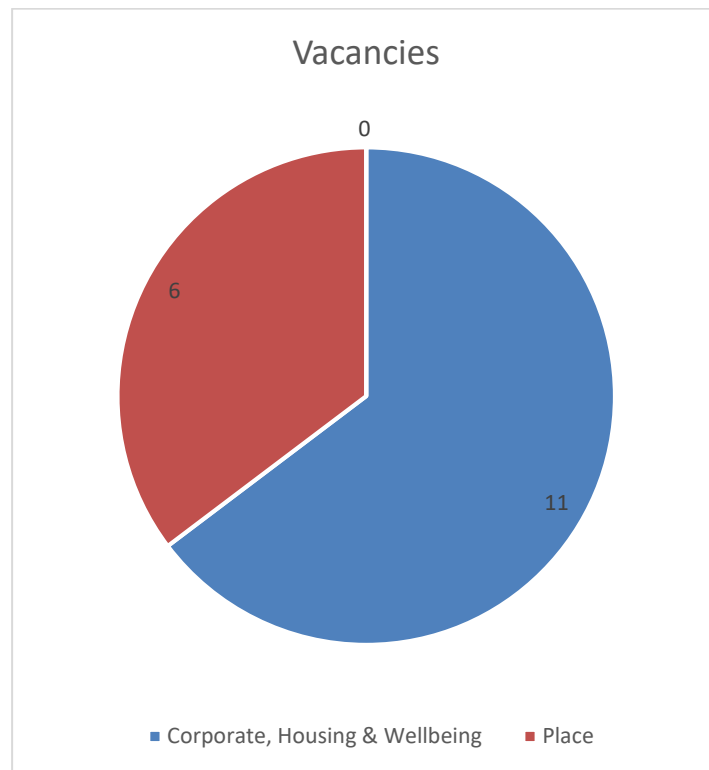
4.6.2 The following graph sets out the aged debt analysis as of 30 November 2022. The total outstanding debt at this date was £2.692m. This included an invoice to West Herts Crem Joint Committee for the recovery of capital costs incurred by the Council on behalf of the Joint Committee in relation to the development of a new crematorium. This invoice was for £1.794m and has now been paid. Excluding this invoice, debt was £0.898m. This compares to a total outstanding debt of £1.229m on 30 September 2022. Underlying debt has therefore decreased by £0.331m.



4.6.3 Of the outstanding debt (excluding the invoice to the Joint Committee), £0.408 (45%) is under one month and is expected that most of this debt will be settled. The total debt over one year is £0.039m (4.3%). This has reduced from £0.061m at 30 September 2022. 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 November 2022 with a detailed analysis by service within appendices 1 to 4. The total vacancies at 30 November was 17.0 FTE compared to 26.69 FTE at 30 September.



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