

Part A

Report to: Cabinet

Date of meeting: Monday, 15 January 2024

Report author: Chief Finance Officer

Title: Financial Monitoring Report 2023/24 - Period 8

1.0 Introduction

1.1 This report sets out the financial monitoring position for 2023/24 as at Period 8 (1 April to 30 November). This is the third 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 17 October 2023.

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 will be addressed through the Council's budget planning process for 2024/25 onwards.

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 17/10/2023 is £16.499m. The year end forecast at Period 8 is £18.303m which is an overspend of £1.804m compared to the latest budget.

1.4.2 The projected year end forecast has increased by £0.494m since the end of Quarter 2. However, this is predominantly due to a change in the forecast for commercial income which is forecast to be met from the Riverwell Reserve subject to the approval of the virement in appendix 7. 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 It is expected that the forecast overspend of £1.804m will be met from Earmarked Reserve (£0.598m), the Economic Impact Reserve (£0.990) and the General Fund (£0.216). The total forecast shortfall to be funded from the General Fund is £0.286m. This has reduced by £0.104m from the previous forecast of £0.390m.

Revenue Account 2023/24				
Service Area	Original Budget	Latest Budget	Forecast	Variance to Latest Budget
	£'000	£'000	£'000	£'000
Corporate, Housing & Wellbeing	5,735	6,078	6,626	548
Place	188	782	3,319	2,537
Democracy, Strategy and Initiatives	3,925	3,925	3,948	24
Strategic Finance	5,114	5,714	4,410	(1,305)
Net Cost of Service	14,962	16,499	18,303	1,804
Funded By:				
Planned use of Reserves	(632)	(2,168)	(2,766)	(598)
Use of Economic Impact Reserve	0	0	(990)	(990)
Gap funded from General Reserves	(70)	(70)	(286)	(216)
Taxation & Non Specific Grants	(14,260)	(14,260)	(14,260)	0
Total Funding	(14,962)	(16,499)	(18,303)	(1,804)

1.5 Capital Summary

1.5.1 The original Capital Investment Programme for 2022/23 was agreed by Council on 31 January 2023. The latest agreed budget is £46.369m. The latest agreed budget was approved at Council on 17 October 2023.

Budget Responsibility	Latest Budget 2023/24	Forecast Outturn 2023/24	Actual to date
	£'000	£'000	£'000
Executive Director of Corporate, Housing & Wellbeing Services	17,762	10,762	2,491
Executive Head of Strategy & Initiatives (Communications, Partnerships & Community)	65	0	0
Executive Director of Place	22,472	20,956	11,741
Director of Finance - Strategic Finance	6,535	1,195	0
TOTAL CURRENT CAPITAL PROGRAMME	46,834	32,912	14,232

1.5.2 Following a review of the profile of expenditure for 2023/24, the forecast year end position is £32.9125m with the majority of the underspend of £13.922m required in future years. Further detail on the reprofiling of the capital investment programme is set out in the Financial Planning Report which sets out the proposed capital investment programme for the current year and three further years, 2023/24 to 2026/27.

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 8 and note both the revenue and capital forecasts for 2023/24.

3.2 To note the virement requests to Council set out in Appendix 7.

3.3 To note recommendations from Finance Scrutiny Committee.

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 £16.499m. The year end forecast of £18.303m and resulting variation to budget of £1.804m 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	1,739	1,719	1,198	(20)
	Housing and Wellbeing	3,196	3,730	1,856	534
	ICT and Shared Services	1,143	1,177	1,343	34
Place	Environment	7,954	9,672	6,860	1,718
	Planning, Infrastructure and Economic Development	1,521	1,584	1,141	63
	Property and Asset Management	(8,694)	(7,937)	(2,175)	757
Democracy, Strategy and Initiatives	Corporate Strategy and Communications	1,348	1,348	898	0
	Democracy and Governance	2,025	2,049	1,112	24
	Human Resources	551	551	378	0
Strategic Finance		5,714	4,409	5,599	(1,306)
Total		16,498	18,302	18,208	1,804

- 4.1.2 Within Housing and Wellbeing, there is a forecast pressure of £0.534m of which £0.511m relates to temporary accommodation due to an increase in the number of people being supported. 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 £1.333m of which £1.1m is brought forward from 2022/23.
- 4.1.4 An additional net pressure of £0.598m is reported within the Place in relation to commercial income. This reflects the impact of a tenant entering administration and a reduction in rent due to the Council as freeholder as a result of deductible capital expenditure. A virement request is included in Appendix 7 to offset this reduction in income with a contribution from the Riverwell Reserve.
- 4.1.5 Within the net underspend of £1.306m 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.
- 4.1.6 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 include the virements and rephasing of budgets as agreed at Council on 17 October 2023.

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	635	535	229	922	922
	Customer & Corporate Services	16,760	9,848	2,151	4,138	-
	Housing & Wellbeing	367	379	111	250	250
Corporate Strategy and Communications		65	-	-	-	-
Place	Planning, Infrastructure & Economy	1,861	748	103	930	400
	Property & Asset Management	15,603	17,204	10,476	4,903	12,299
	Environment	5,009	3,004	1,162	8,411	406
Strategic Finance		6,535	1,195	-	377	677
TOTAL CURRENT CAPITAL PROGRAMME		46,834	32,912	14,232	19,932	14,954

4.2.2 The forecast year end position of £32.912m is £13.992m lower than the latest budget. This compares to a forecast of £35.775m at the 30 September 2023. The variation of £2.862m includes reprofiling of the Town Hall Quarter of £1.313m based on the latest delivery plan and a reduced forecast for expenditure in 2023/24 for Woodside Sports Village of £0.950m. A detailed scheme breakdown is provided in appendices 1 to 4.

- 4.2.3 As has been noted over the last 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 risk 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 Financial Planning Report elsewhere on the agenda sets out the proposed capital investment programme for the current year and three further years, 2023/24 to 2026/27 including, where applicable, the requests for rephrasing of budget from 2023/24.
- 4.2.6 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 2023/24 forecast capital investment is set out in appendix 5.
- 4.2.7 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). 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 Virements

- 4.3.1 Appendix 7 sets out virements in relation to the 2023/24 revenue budget that Council will be asked to approve to January 2024.
- 4.3.2 The 2023/24 pay award was agreed in November. The budget to meet the cost of the pay award is held in Strategic Finance. A virement request is included to allocate the budget across service pay budgets where the cost will be incurred. The ongoing impact of the pay award is included the draft budget as set out in the Financial Planning Report elsewhere on the agenda.
- 4.3.3 It is proposed to use £0.598m from the Riverwell reserve to offset the shortfall in commercial income as set out in paragraph 4.1.4.

4.3.4 The Council has budgeted for net income from the investment in Croxley Business Park finance lease of £1.715m. As per the initial acquisition model, the Council draws on funds received upon completion of the lease and held in the Croxley Park Earmarked Reserve to smooth the timing of cashflows. A virement request is included to budget for the expected movement on the reserve.

4.3.5 The virement request in relation to this is reflected in the use of Earmarked Reserves in the table at paragraph 4.4.1 and in the detailed table at appendix 6.

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	Balance at 1 April 2023 £000	Budgeted use of reserves £000	Movement in Year £000	Croxley Park £000	Balance at 31 March 2024 £000
Earmarked Reserves	(35,065)	2,168	598	3,507	(28,792)
Economic Impact Reserve	(990)	0	990		0
General Fund	(2,000)	69	216		(1,715)
Total	(38,055)	2,237	1,804	3,507	(30,507)

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

4.4.3 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.

4.4.4 The Council's risk assessed level for the General Fund is £2.000m. Based on the latest forecast, the General Fund will fall below this level to £1.715m at year end after meeting the funding gap of £0.069m in the original budget for 2023/24 and the balance of the reported in year overspend. Mitigation measures are being implemented to reduce the forecast overspend in year and reduce the drawdown on the General Fund. If this is not achieved, action will need to be taken over the MTFs to enable a contribution to the General Fund to return it to the minimum risk assessed level.

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 since the last report. 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 2023, and was subsequently increased by 0.25% 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.
- 4.5.4 The monitoring position includes a forecast for additional net income of £0.668m 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.
- 4.5.5 Further detail is provided in appendix 4.

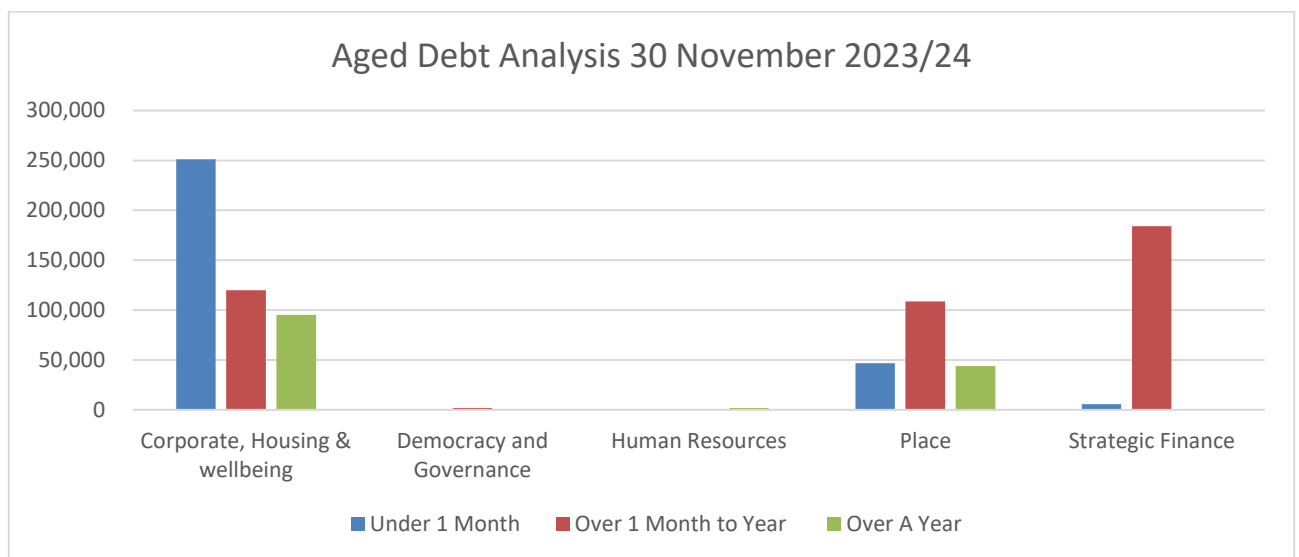
4.6 Savings Monitoring

- 4.6.1 The MTFS agreed by Council in January 2023 included planned savings of £1.060m in 2023/24. As at 30 November, £0.587m (55.4%) had 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.
- 4.6.2 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.

4.7 Aged Debt

4.7.1 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.

4.7.2 The graph below sets out the aged debt by service area as at 30 November 2023. The total outstanding debt was £0.860m. This compares to a total outstanding debt of £1.277m at 30 September 2023.



4.7.3 Of the outstanding debt, 35% is under one month past due, while 48% is between one month and 12 months. The remaining 16% is over 12 months old. The Council's debt recovery team will continue to chase these debts and initiate payment plans (instalments) wherever possible.

4.7.4 The total outstanding amount for Strategic Finance over a month is £0.284m of which £0.184m and primarily related to a Section 106 contribution.

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 Virements
- Appendix 8 Key Budgetary Risks
- Appendix 9 Savings Monitoring

Background Papers

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