

Part A

Report to: Finance Scrutiny Committee

Date of meeting: Tuesday, 25 June 2024

Report author: Chief Finance Officer

Title: Financial Monitoring Report 2023/24 - Year End

1.0 Summary

1.1 This report sets out the revenue and capital year end position for the financial year 2023/24. The position is subject to external audit and may change. The audit of the accounts is expected to take place during 2024/25 and will be undertaken by Azets Audit Services Ltd.

1.2 During the year the Council has faced significant financial challenges as a result of persistent high inflation, rising interest rates and the impact of the cost of living crisis on residents which has increased demand for services.

1.3 The latest budget, agreed by Council in January, included additional planned use of reserves to fund these pressures on a one off basis with the longer term impact addressed through the budget planning process for 2024/25 onwards. However, the following mitigation measures were also put in place to bring down spend and protect the Council's reserves so that they remain available to manage future financial risks:

- 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.

1.4 The final year end revenue position is an underspend against the latest budget of £0.343m resulting in the General Fund balance remaining at the risk assessed level of £2.000m and a balance of £0.701m in the Economic Impact Reserve at 31 March 2024.

1.5 During the year £24.728m was invested in capital schemes including £10.707m in the Aspire at Watford Business Park regeneration development.

2.0 Risks

2.1 The key budgetary risks are set out in appendix 6. All risks are closely monitored on an ongoing basis.

3.0 Recommendations

For Finance Scrutiny Committee:

3.1 To consider the 2023/24 revenue year end position as summarised at section 4.1 and detailed in Appendix 1 and to note the year end position.

3.2 To consider the 2023/24 capital year end position as summarised at section 4.5 and shown in detail in Appendix 4.

3.3 To make recommendations to Cabinet or Council in respect of the financial monitoring position as agreed by the Committee.

For Cabinet:

3.4 To consider the 2023/24 revenue year end position as summarised at section 4.1 and detailed in Appendix 1 and to note the year end position.

3.5 To consider the 2023/24 capital year end position as summarised at section 4.5 and shown in detail in Appendix 4.

For Cabinet to recommend to Council:

3.6 To approve the revised capital investment programme of £42.451m for 2024/25, £10.510m for 2025/26 and £4.528m for 2026/27, including rephasing of £6.760m capital budgets from 2023/24 into 2024/25 onwards as set out in Appendix 4.

3.7 To approve the Revenue Virements for 2024/25 as set out in Appendix 7.

Further information:

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Report approved by: Hannah Doney, Chief Finance Officer

4.0 Detailed proposal

4.1 Revenue Year End 2023/24

4.1.1 The following table sets out the variations to budget by service area:

Service Area	Latest Budget	Year End	Variance to Latest Budget
	£'000	£'000	£'000
Democracy & Governance	2,136	2,142	6
Place	4,490	6,569	2,079
Corporate Strategy & Comms	1,401	1,124	(277)
Human Resources	593	560	(33)
Strategic Finance	4,934	2,426	(2,508)
Corporate, Housing & Wellbeing	7,048	7,438	390
Net Direct Cost of Service	20,602	20,259	(343)
Funding: Taxation and Planned use of Reserves	(20,602)	(20,259)	343

4.1.2 The net variation to budget at year end is an underspend of £0.343m. This will be returned to earmarked reserves.

4.1.3 The position presented for the Croxley Business Park investment within the Place directorate is draft and is subject to final year end adjustments for payments in advance, bad debt provision and service charge costs. It has not been possible to finalise the position due to a delay in receiving the information from a third party. An update will be provided in the first financial monitoring of 2024/25 to Finance Scrutiny Committee and Cabinet in September and October respectively. These adjustments will not impact on the net year end position as variations to budget are managed through use of the Croxley Park Reserve.

4.1.4 Significant variations to budget are itemised by service area in appendix 1.

4.1.5 Significant changes from the forecast at period 10 includes additional income of £0.183m following a reconciliation of funding due to Council from the Contain Outbreak Management Fund (COMF) administered by the County Council. The forecast pressure against the Veolia contract also reduced by £0.212m. However, this relates to tree management costs that are likely to be incurred in 2024/25 and not a reduction the core contract costs which were as forecast.

4.2 Impact of year end position on forecast for 2024/25 and MTFS planning assumptions

Temporary Accommodation

- 4.2.1 The final position for temporary accommodation was slightly improved from the forecast reported in the financial monitoring report to period 10 with the overall variation for the Housing Service reducing from a forecast overspend of £0.794m to £0.626m.
- 4.2.2 Within this, the total net spend on bed and breakfast, nightly lets and leased private temporary accommodation during 2023/24 was £1.246m. This compares to £0.158m in 2022/23 and just £0.005m in 2021/22. This increase is driven by demand, price, and availability of long term accommodation to move households on from the service.
- 4.2.3 At 31 March 2024, there were 190 households in temporary accommodation. This has increased from 124 households at 31 March 2023 (97 households at 31 March 2022). The Council is working with registered providers to secure additional temporary accommodation to increase the core portfolio. However, this huge and rapid increase in demand has been met predominately through the use of nightly lets and bed and breakfast accommodation over the past year.
- 4.2.4 Over the same period, there has been a significant increase in the cost of both nightly lets and bed and breakfast accommodation. Since 2019, the average price of a nightly let has increased from between £70 and £180 to between £350 and £550 per week. Over the same period, the average price of bed and breakfast increased from between £130 and £200 to between £400 and £500. The Council is able to charge rent on this accommodation, however, the maximum rent chargeable (as set out in housing benefit regulations) has not increased over this period. This means that the increase in price is met in full by the Council.
- 4.2.5 Although the final year end position is improved from the forecast at P10, it is expected that there will be further pressure on this budget in 2024/25. Additional budget of £0.800m was agreed for the service by Council in January 2024 based on forecasts for demand. This included projections for moving families into permanent accommodation following the completion of new affordable housing, delivered by the private sector under obligations within section 106 agreements, which were due to be completed towards the end of 2023/24. It is now expected that there will be a delay to this affordable housing stock becoming available, which will result in increased temporary accommodation costs during the year. This additional pressure is currently estimated to be around 0.400m. This is after allowing for planned interventions by the Council, such as use of commuted sums and reprovision of existing accommodation as set out section 4.5 below. Further updates will be reported through the financial monitoring report throughout 2024/25.

Savings

- 4.2.6 The budget agreed for 2024/25 included savings of £0.616m to be achieved through service redesign and a further £0.030m from a review of essential car users allowances. These savings were held corporately within Strategic Finance pending agreement of how these savings would be delivered. Of this, £0.587m has now been identified, predominantly from voluntary redundancy and deletion of vacant posts. A virement is requested (Appendix 7) to allocate the saving from Strategic Finance to relevant service budgets. The saving increases from 2025/26 onwards to £0.630m as a full 12 month saving is achieved.
- 4.2.7 The Financial Monitoring Report to Finance Scrutiny Committee in September will set out the detailed forecast against budget for 2024/25 across all services, including progress against delivery of savings.

4.3 Other key financial risks

- 4.3.1 The Council tax collection rate for 2023/24 was 95.2% compared to a budgeted collection rate of 97.0%. This underperformance had been replicated across other Hertfordshire authorities. The lower than budgeted collection rate does not have an immediate impact on resources in 2023/24 due the nature of collection fund accounting (as set out in statute) but will impact on resources in future years through the surplus or deficit mechanism. It should also be noted that this is the percentage collected in year and not the amount that will ultimately be collected. However, consideration will need to be given as to whether or not it is appropriate to maintain the 97.0% assumption when setting the tax base for 2025/26. Each 1% reduction is equivalent to around £0.111m.
- 4.3.2 The Council has allowed 4% for pay inflation in 2024/25. The employer offer is a flat increase of £1,290 for all staff paid up to £51,515 and a percentage increase of 2.5% to all employees paid over £51,515. This is consistent with the approach taken in recent years which seeks to boost pay by a higher percentage at the lower end of the pay scale. This offer is within the contingency budget set aside for pay inflation. However, the unions are yet to formally respond to the offer and there is a risk that the final award will be higher which could result in both an in year budget pressure and an ongoing cost pressure in future years.
- 4.3.3 Commercial income remains a key risk for the Council. The budget for 2024/25 includes expected growth in rental income from the Aspire at Watford Business Park development which completed in 2023/24. There is a risk that lettings will be slower than projected as a result of market conditions. As the owner of the site, the Council is liable for service charges and business rates on vacant units.

4.4 Capital Year End 2023/24

4.4.1 A summary of the Council's capital investment during 2023/24 against the latest agreed budget is set out in Appendix 2. During 2023/24, the Council invested £24.728m in capital schemes largely attributed to the ongoing delivery of the Town Hall Quarter and completion of new units at Aspire at Watford Business Park (retention budgets included in 2024/25). Appendix 3 sets a detailed analysis of the Council's capital programme over the MTFs, including the impact of requests to rephase budgets into future years.

4.4.2 A summary of how the 2023/24 capital investment programme has been financed is provided at Appendix 4. As a result of capital investment during 2023/24, the Council's borrowing requirement has increased by £15.486m. The additional interest payable and Minimum Revenue Provision (allowance for the repayment of debt) have been built into the Council's revenue budget for 2024/25 onwards. Grant funding applied is £5.332m which includes the use of £2.235m Community Infrastructure Levy (CIL) and £0.117m S106 contributions.

4.4.3 The table below provides a summary of the variation to budget after taking account of rephasing requests:

WBC Capital Programme 2023/24	£'000
Revised Budget	33,885
Expenditure	24,728
Variance	9,158
Rephasing requests to 2024/25 Onwards	6,760
Net overspend / (underspend)	(2,398)

4.4.4 Major schemes to be rephased into 2024/25 are :-

- Town Hall Quarter £4.260m
- Surplus Sites £1.000m

4.4.5 The net underspend predominately relates to the Council's Riverwell joint venture (Watford Health Campus Partnership). During the year the Council transferred land known as the 'central site' to the joint venture. When the Council transfers land to a joint venture it can either receive a capital receipt or a loan note. When a loan note is received this must be treated as capital expenditure. Repayment of the loan is subsequently treated as a capital receipt. As the Council received payment directly on transfer of the land it was not necessary to grant a loan and the budget of £2.308m is not required. Similarly, it is now expected that the transfer of land in relation to Industrial Zone North will result in a capital receipt and not a loan note. A budget of £1.450m was allowed for this.

4.5 Additions to the Capital Programme

- 4.5.1 The Council is in the process of disposing of four residential properties on Rickmansworth Road. The expected capital receipts are not currently allocated within the capital programme. It is therefore proposed to use the capital receipts generated from the sales to provide additional temporary accommodation or increase the supply of affordable housing to enable the move on of households currently in temporary accommodation. This is an invest to save proposal to reduce the cost pressures on the Council's revenue budget from the increased number of households in temporary accommodation. The Council can utilise the capital receipts to purchase residential property directly or through working in partnership with a registered housing provider.
- 4.5.2 The decision on how the funds will be utilised will be subject to a full financial appraisal and Cabinet approval. This will consider how to maximise the impact of the available resources. Under the Council's constitution, budgetary approval must be given by Council. As Council does not meet frequently it is proposed to include a budget of £2.400m within the capital programme to ensure that decisions can be implemented swiftly once the preferred options are agreed. However, expenditure will be capped at the value of the capital receipts received. The budget has been included in the detailed capital programme at Appendix 4 which Cabinet will be asked to recommend to Council for approval in July.
- 4.5.3 It is also proposed to utilise £0.375m of commuted sums to make a capital grant to Watford Community Housing to enable five affordable housing tenancies to be converted to social rent tenancies for family houses. Under the Constitution, the Elected Mayor has delegated authority to agree the use of commuted sums, however, Council must agree the expenditure budget associated with this. As above, the budget has been included in the detailed capital programme at Appendix 4 which Cabinet will be asked to recommend to Council for approval in July.
- 4.5.4 As these additions to the programme are fully funded there is no increase to the Council's borrowing requirement and no change to capital financing costs charged to the revenue budget.

4.6 Council Reserves

- 4.6.1 The Council has set aside specific amounts which it holds as reserves for future business purposes and to cover contingencies in case of operational need i.e. economic impact reserve.
- 4.6.2 The council's revenue reserves are set out in appendix 5.
- 4.6.3 At 31 March 2024 the Council's general fund is at the risk assessed level of £2.000m and there is a balance of £0.701m remaining in the Economic Impact Reserve.

Other Earmarked reserves, set aside for specific purposes and risks, total £24.943m. Total revenue reserves are therefore £27.644m.

4.6.4 The opening reserve balances has been restated from the position previously reported to reflect changes arising from the 2020/21 external audit and subsequent revision of the draft accounts for 2021/22 and 2022/23. The closing balance is also subject to change following the finalisation of the movement in relation to Croxley Business Park.

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**

5.2.1 The Head of Legal Shared Service 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 Revenue variances
- Appendix 2 Capital Summary
- Appendix 3 Capital detailed report
- Appendix 4 Capital Programme Funding
- Appendix 5 Reserves
- Appendix 6 Key Budgetary Risks
- Appendix 7 Revenue Virements 2024/25

Background papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

- Budget Report to Council – January 2023
- Budget Report to Council – January 2024
- Financial Monitoring Report to Period 10 to Cabinet – March 2024