

POLICY AND RESOURCES COMMITTEE - 13 MARCH 2023

PART I - DELEGATED

10. BUDGET MONITORING REPORT TO 31 JANUARY 2023
(DIRECTOR OF FINANCE)

1. Budget Monitoring Summary

1.1 Budget monitoring report is a key tool in scrutinising the Council's financial performance and is designed to provide an overview to all relevant stakeholders. It is essential that the council monitors its budgets throughout the year to ensure that it is meeting its strategic objectives within its resource limits and, where necessary, corrective action is taken. A key principle of budgetary control is to align the budget holders' financial responsibilities and their management responsibilities.

1.2 This report shows the expected financial position over the three year medium term based on the Council's actual financial performance at the end of period ten (31 January 2023) set against the latest budget.

1.3 Revenue Summary

1.3.1 The latest net expenditure approved budget for 2022/23 is £14.687m. The forecast year end position for 2022/23 at Period 10 is estimated to be £14.364m giving a favourable variance of £0.323m.

1.3.2 The table below shows how the forecast yearend position has been constructed:

Revenue Budget 2022/23		£000
Original Net Revenue Budget		13,188
Variances Previously Reported		1,499
Latest Approved Budget		14,687
Service Variances Reported This Period		(323)
Forecast Outturn Position		14,364

1.3.3 The main variances are shown in the table below:

Description		£000
1	Kerbside Recycling Increased income of £87,930 on recycling credits from Herts CC and £13,280 on Organic Waste Recycling expected from Herts CC. Increase income of £16,646 from Pearce for Recycling disposal, however, although income was being received until December, there has been a recent change in market conditions and we are now paying to process recycling, which requires a budget of £60,000. This will be kept under review.	(58)

2	Development Management £11,050 budget transferred from Development Planning and £30k increased income received for pre application fees. Increased income received for planning application fees of £100,000 and Increased income received from CIL of £48,000. £10,000 Additional costs for legal advice on pending appeals and for Counsel's Public Inquiry appeal preparation, offset by full budget not required on Printing and Stationery £500, Scanning £3,000 and Subsistence £200	(183)
3	Miscellaneous Properties Increased income received for Buildings £10,125 due to rent arrears for the Old Drill Hall and Land £20,750 due to Network Rail Licence agreements.	(31)
4	Garages & Shops Maintenance Reduction in income received from shops of £14,000 due to South Oxhey Initiative and Garages of £79,000 as budget is calculated on an average of 10% void rate, current void rate is 15.5%	93
5	Salary Realignment Variance includes revised employee estimates which takes into account vacancies and changes in pay elements.	(245)
	Other Variances below £30k	101
	Total Variance	(323)

1.4 Capital Summary

1.4.1 The latest approved budget for 2022/23 is £18.767 million. Services have identified a variance of (£0.344) million, due to savings and rephrasing. The forecast yearend position for 2022/23 provided by the services is now £18.423m.

1.4.2 The table below shows how the forecast yearend position has been constructed:

Capital Investment Programme 2022/23	£000
Original Budget	7,038
Variances Previously Approved	11,946
Latest Approved Budget	18,984
Service Variances Reported This Period	(1,632)
Forecast Outturn Position	17,652

1.4.3 The forecast variances to agreed budget are shown in the table below:

Description	£000
EV Charging Points CIL Budget to be rephased to 2023/24 due to delay in procurement process, project will now commence in 2023/24.	(460)
Highways Enhancement	(160)

£160,000 budget removed, which were identified for High Elms Lane scheme but no confirmed date to progress. Need landowner agreements and HCC involvement to progress. Future request for budget if project progresses.	
South Oxhey Playing Fields CIL Budget to be rephased to 2023/24. Planning application currently being considered.	(469)
Waste & Recycling Vehicles £213,000 rephased to 2023/24 as the purchase of 2 smaller replacement refuse collection vehicles deferred to next financial year.	(213)
ICT Managed Project Costs £150,000 Budget transferred to Hardware Replacement Program to cover recharge. £90,000 rephased to 2023/24	(240)
Hardware Replacement Program £150,000 Budget transferred from ICT-Managed Serv-Project Costs to cover recharge.	150
Temporary Accommodation – Other Sites Contribution to 5 properties under the Rough Sleeper Accommodation Programme, funded by Affordable Housing S106 contributions.	100
Other Variances	(340)
Total Capital Variance	(1,632)

1.5 Reserves Summary

1.5.1 The potential effect of both the revenue and capital variances upon on each reserve at summary level is shown in the table below. A list of reserve balances is shown at Appendix 7.

Description	Balance at 1 April 2022	Movement	Balance at 31 March 2023
	£000	£000	£000
Capital Reserves	(4,694)	(1,755)	(6,449)
Earmarked Reserves	(11,938)	(1,644)	(13,582)
Economic Impact Reserve	(2,334)	463	(1,871)
General Fund	(5,363)	1,053	(4,310)
Total	(24,330)	(1,883)	(26,213)

2. Details

2.1 Revenue Budget

2.1.1 The Council's latest approved services budget (excluding corporate budgets) is £12.479m. The forecast outturn is now estimated to be £12.156 million which results in a service variance of £0.323m.

2.1.2 The table below compares the original budget, latest budget, the forecast year end position and the variance against each Committee. It also shows spend to date up to the end of Period 10 (31 January 2023). The position of each cost centre and an explanation of the main variances for each committee are set out in the detailed committee monitoring reports at Appendices 1 to 3.

Committee	2022/23 Revenue Account – General Fund Summary				
		(A)		(B)	(B – A)
	Original Budget	Latest Budget	Net Spend to Date	Year end Forecast	Variance
	£000	£000	£000	£000	£000
Leisure, Environment and Community	4,555	5,524	2,307	5,278	(246)
Infrastructure, Housing and Economic Development	1,436	1,409	(223)	1,270	(139)
Policy & Resources	4,996	5,546	5,884	5,608	62
Total Service Budgets	10,987	12,479	7,968	12,156	(323)
Corporate Costs (Interest Earned/ Paid), Parish Precepts and Transfer to Reserves	2,201	2,208	7,838	2,208	0
Net General Fund	13,188	14,687	15,806	14,364	(323)

2.2 Revenue Reserve Position

2.2.1 The effect of all Period 10 variances on the Council's General Fund Reserve over the medium term is shown in the table below:

Movement on General Fund Balance	2022/23			2023/24	2024/25
	Original £000	Latest Budget £000	Forecast £000	Latest £000	Latest £000
Balance at 1 April	(5,364)	(5,364)	(5,364)	(4,310)	(4,259)
(Surplus)/Deficit for Year	340	1,840	1,054	51	59
Closing Balance at 31 March	(5,024)	(3,524)	(4,310)	(4,259)	(4,200)

2.2.2 A prudent minimum general fund balance of £2.000m is considered appropriate. The general fund balance is forecast to fall below this minimum level over the medium term. The Council's budget setting process for 2023/24 will take into account the expected call on the General Fund Reserve with measures taken to address this to ensure that balances remain above the risk assessed level.

2.2.3 The Council also has the Economic Impact Reserve which is held to manage the impact of economic fluctuations. The reserve will be used in 2022/23 to fund the shortfall on the SLM management contract income as a result of the impact of COVID-19 on the leisure contract and the reprofiling of the management fee. The forecast for the Economic Impact Reserve is set out in the following table:

Movement on Economic Impact Reserve	2022/23			2023/24	2024/25
	Original £000	Latest Budget £000	Outturn £000	Latest £000	Latest £
Balance at 1 April	(2,334)	(2,334)	(2,334)	(1,871)	(1,688)
COVID-19 Impact for Year		0	463	183	147
Closing Balance at 31 March	(2,334)	(2,334)	(1,871)	(1,688)	(1,541)

2.2.4 After taking account of the Economic Impact Reserve, the Council's unrestricted reserves position is forecast to remain above the £2.0m risk assessed level across the MTFP at £5.532m at 31 March 2026.

2.3 Investment Portfolio

2.3.1 The Council's Property Investment Board was allocated up to a total of £20.000m in 2017 to invest in acquiring property with a specific remit of achieving a 5% return (yield) on the investment. The table below shows those properties that the Council has acquired, the 2022/23 receivable rent, and the resulting yield.

2.3.2 The total rent due is forecast to be £1.023m which will achieve an average yield of 5.68%, above the 5% target.

2.3.3 The governance of property investments is covered in the Property Investment Strategy.

Investment Property	2022/23 rent £000	Total cost of property £000	Yield %	Comments
Nottingham	(214)	4,469	4.79%	Acquisition of freehold interest located in the city centre of Nottingham let to commercial tenants, for a combined rental of £227,600pa on a 10 year lease from Feb 2018 which is subject to upward only rent reviews in Feb 2023. With effect from the Feb 2023, Barclays Bank Plc rent has been negotiated and agreed at £145,000 pa. This will be to lease end Feb 2028. Due to financial difficulties which a number of high street brands have encountered, one tenant company are now under a Company Voluntary Agreement (CVA). Effective from the 2/9/20 to 8/4/2023, paying only a concessionary rent of £12,000 pa as opposed to the contracted rent of £60,000 pa. Additional rent may be charged quarterly, based on the difference between 11% of quarterly turnover and the quarterly concessionary rent. Turnover certificates are provided quarterly. Q1,2 & 3 22/23. Turnover rent has now been included in projection
Norwich	(464)	7,169	6.47%	Acquisition of a freehold interest located in the city centre of Norwich. Let to commercial sitting tenants for 20 year lease from December 2007. The rent due for 2022/23 is £0.464m. The rent is reviewed annually in line with RPI, with a collar and cap arrangement of 3% and 5% respectively.
Lincoln Drive (South Oxhey)	(159)	2,740	5.79%	The purchase of a Temporary Accommodation hostel at Lincoln Drive, South Oxhey. This comprises of 20 units with a mixture of 1, 2 and 3 bedrooms. This represents the net rent after the deduction of the management fee payable to Watford Community Housing which includes voids and the provision for bad debts. Management costs have increase wef April 22 by 4.1%
The Grapevine	(187)	0	0.00%	A joint venture development with Watford Community Housing on the ex-public house site 'The Grapevine'. Loan facilities provided by TRDC to Three Rivers Homes Ltd comprises of £5.182m including interest accrued to date. Annual interest of £0.187m is due for 2022/23.
Total	(1,023)	14,378	5.68%	Average Yield

2.4 Capital Programme

2.4.1 The Council's capital programme has been designed to support and enhance its core services and priorities. The Council's Medium Term Capital Investment Programme is shown by scheme by each Committee at Annex C in Appendices 1-3 and includes variances and commentary from officers.

2.4.2 The latest approved budget is £18.984m. The forecast outturn for capital expenditure by Services at Period 10 is £17.352m. This provides a favourable variance of (£1.632m).

2.4.3 The table below shows the 2022/23 original budget, latest budget, forecast outturn, spend to date and variance for Period 10.

Committee	Original Budget £000	Latest Budget £000	Spend to Date £000	Year end Forecast £000	Variance £000
Leisure, Environment and Community	3,718	4,288	2,287	3,491	(797)
Infrastructure, Housing and Economic Development	1,633	2,241	779	1,506	(735)
Policy & Resources	1,687	1,631	241	1,432	(199)
Total Service	7,038	8,161	3,307	6,429	(1,732)
Major Projects:					
South Oxhey Initiative	0	352	340	352	0
Temporary Accom – Other Sites	0	0	100	100	100
Property Investment	0	10,471	14	10,471	0
Total Capital	7,038	18,984	3,762	17,352	(1,632)

2.4.4 As at the end of Period 10, the total spend totalled £3.762m and represents 19.82% of the latest budget.

2.4.5 The capital programme is mainly supported by three income streams; capital receipts (derived from the sales of assets), grants and contributions, and the use of reserves. In addition, the Council may prudentially borrow to fund its capital programme. Decisions on borrowing (amount and duration) will be taken when the need arises. Funding of the capital investment programme over the medium term is shown at Appendix 5.

2.5 Key Risk Areas

2.5.1 Resources are allocated in the revenue and capital budgets to support the achievement of The Council's corporate plan. The Council's budget is exposed to risks that can potentially impact on service level provision. The key risks highlighted as part of this quarter's monitoring are;

- **Inflation**

Inflation, as measured by the Consumer Price and Retail Price Indices, continues to rise. The 12-month Consumer Price Index (CPI) reached 10.5% for December 2022 (last available at time of reporting) and the Retail Price Index (RPI) reached 13.0%. Inflation drives costs across the Council's budgets with the most significant impact on pay, fuel and energy costs. Further information on the impact on the Council's budget is set out section 2.6 below.

- **Leisure Management Contract**

An agreement has been reached with the operator to reprofile the management fee due to the Council under the leisure management contract. The reprofiling recognises that activity levels remain below the initial expectations when contract commenced due to a lack of growth during the COVID-19 pandemic. This agreement results in a reduced fee for 2022/23 that will be recovered over the life of the contract. The Leisure Management Contract includes a utilities price mechanism, which is included in the forecast for 2022/23.

- **Business Rates & Council Tax**

Over the last couple of years additional support has been provided to business and those of working age who are entitled to Council Tax Relief Support (CTRS). However, these reliefs are not expected to completely mitigate the longer-term impacts of COVID-19 on Council Tax and NDR. Any impact on collection rates will feed through the Collection Fund to impact on council spending power in 2023/24.

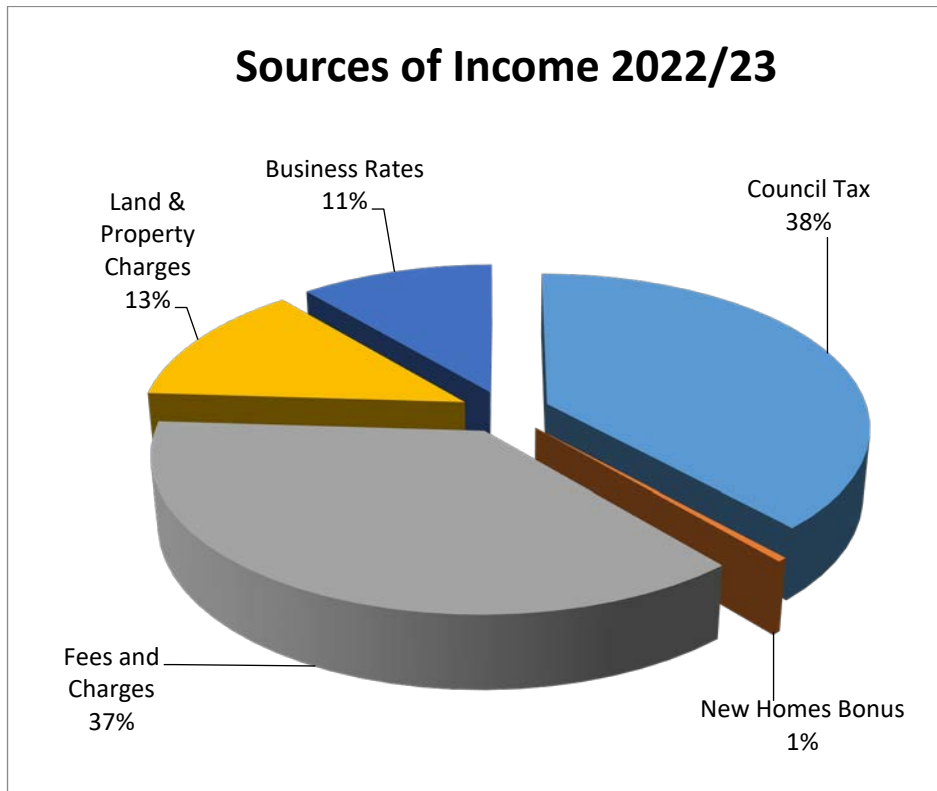
The table below shows the impact on collection rates in the first ten months of this year:

Fund	P10 2022/23 Target	P10 2022/23 Actual	Difference
Council Tax	96.2%	94.5%	-1.7%
Business Rates (NDR)	93.99%	92.83%	-1.16%

2.5.2 The Council's overall key financial risk matrix is shown at Appendix 7. These are reported and monitored and reviewed by the Council's Audit Committee on a quarterly basis. The latest matrix was presented to the Audit Committee on 8 December 2022.

2.6 Council Income

2.6.1 The chart below shows the amount of income for each source as a percentage of total income.



2.6.2 Particular income generating items can fluctuate depending on the economic climate, popularity and affordability. The main risks that are considered the most critical and their financial position are shown in the table below. It should be noted that the income receivable from the Planning Services and Parking Enforcement are not linear and are subject to peaks and troughs throughout the financial year.

2.6.3 Environmental Services, trade waste is invoiced to customers half yearly in April and October and garden waste for existing customers is charged for in one instalment at the beginning of the financial year.

2.6.4 Garage rents are charged on a weekly basis and most are collected by a monthly direct debit. Licensing income relates licences which are issued on a three or five year basis.

Service	Income Stream	2022/23 Original Budget £	2022/23 Latest Budget £	2022/23 Actual to date £	2022/23 Year end Forecast £	2022/23 Variance £
Regulatory Services	Application Fees	(696,420)	(850,000)	(907,862)	(950,000)	(100,000)
	Licenses	(200,260)	(200,260)	(182,514)	(178,610)	21,650

Parking	Penalty Charge Notices	(115,000)	(100,500)	(78,351)	(100,500)	0
	Pay and Display	(220,000)	(191,000)	(112,438)	(174,000)	17,000
Environmental Protection	Trade Refuse	(794,760)	(767,000)	(767,149)	(767,000)	0
	Garden Waste	(1,223,200)	(1,230,700)	(1,232,190)	(1,232,225)	(1,525)
	Clinical Waste	(119,328)	(103,500)	(103,367)	(103,500)	0
	Cemeteries	(202,480)	(202,480)	(170,380)	(202,480)	0
Property Services	Garages	(976,830)	(976,830)	(747,717)	(898,830)	79,000
	Shops	(210,000)	(210,000)	(185,195)	(196,000)	14,000
	Investment Properties	(1,100,000)	(1,100,000)	(712,248)	(1,100,000)	0

2.6.5 Further details on the Council's key budget indicators for revenue service income streams (including volumes and trends) are shown in the detailed Committee Monitoring Reports at Appendices 1 to 3.

2.7 Debtors (invoicing)

2.7.1 The Council charges its customers for various services by raising debtor invoices. If the debt remains 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 the legal recovery process.

2.7.2 As at the end of Period 10 (January), the total outstanding debt was £0.337 million. This is equivalent to 1.34% of total budgeted income of £25.200 million. Debts less than a month old total £0.136 million (40.43% of total debt) and it is considered that this sum will be recovered. Outstanding debt over a year old is £0.078 million (23.27% of the total debt) which mainly relate to unpaid rent on Temporary Accommodation. The Council's debt recovery team will continue to chase these debts and initiate payment plans (instalments) wherever possible.

2.7.3 The table below shows a summary of the outstanding debt by the three main aged categories.

Aged debt	Services	Under 1 Month	Over 1 Month to year	Over a year	Total
Committee		£	£	£	£
Leisure, Environment & Community	Community Safety Partnership	4,574	30,262	0	34,836
	Environmental Services	62,461	46,972	6,220	115,653
	Leisure	27,116	145	0	27,261
Infrastructure, Housing and Economic Development	Housing- Temporary Accommodation	4,725	13,911	43,817	62,453
	Planning	1,554	0	7,475	9,029
Policy & Resources	Legal & Property	33,841	26,506	6,928	67,275
	Insurance	0	1,314	140	1,454
	Others	1,829	3,087	13,734	18,650
Total		136,100	122,197	78,314	336,611

2.8 Treasury Management

2.8.1 The Council has managed its cash flows and adhered to its Treasury Management policy during the period to 31 January. The interest earned on the investments made by the Council supports the funding of the services it provides. The Council set an original budget of £0.090m on short-term investment interest for 2022/23. The Bank of England base interest rate was 0.75% on 1st April 2022, and was subsequently increased by 0.25% in both May and June 2022 and 0.50% in both August and September 2022, 0.75% in November 2022 and 0.5% in December 2022. The base rate was therefore 3.5% at the end of the period. The increase in base rate has fed through into increased market returns for short-term deposits.

2.9 Staff Vacancy Monitoring

2.9.1 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 table below summarises the level of vacancies at the end of January 2023 with a detailed analysis by service within appendices 1 to 3.

Committee	No of Vacancies
Infrastructure, Housing and Economic Development	4
Leisure, Environment & Community	12
Policy & Resources	14
Total	30

2.9.2 The percentage of vacant posts at the end of the first quarter is 8.29% when compared against the total number of 362 Council posts. Although there are 30 vacant posts this equates to 29.18 FTE's as some posts are part time. In some cases, vacant posts will be covered by agency staff to ensure service delivery.

3. Options and Reasons for Recommendations

3.1 The recommendations below enable the Committee to make recommendations to Council to agree the allocation of financial resources to delivery Council services.

4. Policy/Budget Reference and Implications

4.1 In accordance with the Council's Constitution and Financial Procedure Rules, if the recommendations are accepted, this will amend the Council's budgets for 2022/23, and over the MTFP.

4.2 There are no substantial changes to Council policy resulting from this report.

5. Financial Implications

5.1 The following revenue and capital variations have been identified for all service committees at 31 January 2023:

Variance	2022/23 £	2023/24 £	2024/25 £
Revenue - (Favourable)/ Unfavourable	(323,119)	0	0
Capital - Increase / (Decrease)	(1,632,016)	1,506,058	0

5.2 The explanations relating to these variations are set out in the main body of this report and supporting appendices.

6. Legal Implications

6.1 There are no legal implications directly arising from this report.

7. Equal Opportunities Implications

7.1 Relevance Test

Has a relevance test been completed for Equality Impact?	Yes
Did the relevance test conclude a full impact assessment was required?	No

8. Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications and Website Implications

8.1 There are no relevant implications directly arising from this report.

9. Risk and Health & Safety Implications

9.1 The Council has agreed its risk management strategy which can be found on the website at <http://www.threerivers.gov.uk>. In addition, the risks of the proposals in the report have also been assessed against the Council's duties under Health and Safety legislation relating to employees, visitors and persons affected by our operations. The risk management implications of this report are detailed below.

9.2 The Financial and Budgetary risks are set out in Appendix 7 and are also reported to each meeting of the Audit Committee. FIN07, which captures the risk that the medium term financial position worsens, is also reported within the Council's Strategic Risk Register.

9.3 The risks set out in Appendix 6 are scored using the matrix below. The Council has determined its aversion to risk and is prepared to tolerate risks where the combination of impact and likelihood scores 6 or less.

10. Recommendation

To Council:

10.1 That the revenue and capital budget variations as shown in the table at paragraph 5.1 be approved and incorporated into the three-year medium-term financial plan.

Data Quality

Data sources:

Council's financial ledger

Data checked by:

Sally Riley, Finance Business Partner

Data rating:

1	Poor	
2	Sufficient	
3	High	✓

Background Papers

Budget papers to Council – 21 February 2023

P6 Budget Management Report – Policy & Resources Committee 7 November 2022

P4 Budget Management Report – Policy and Resources Committee 12 September 2022

APPENDICES / ATTACHMENTS

- Appendix 1 Leisure, Environment and Community Committee Detailed Monitoring Report
 - Annex A - Medium term revenue budget by service
 - Annex B - Explanations of revenue variances reported this Period
 - Annex C - Medium term capital investment programme
 - Annex D - Explanations of capital variances reported this Period
 - Annex E – Key Income Streams
- Appendix 2 Infrastructure, Housing and Economic Development Detailed Monitoring Report
 - Annex A - Medium term revenue budget by service
 - Annex B - Explanations of revenue variances reported this Period
 - Annex C - Medium term capital investment programme
 - Annex D - Explanations of capital variances reported this Period
 - Annex E – Key Income Streams
- Appendix 3 Policy and Resources Committee Detailed Monitoring Report
 - Annex A - Medium term revenue budget by service
 - Annex B - Explanations of revenue variances reported this Period
 - Annex C - Medium term capital investment programme
 - Annex D - Explanations of capital variances reported this Period
 - Annex E – Key Income Streams
- Appendix 4 Strategic Finance Medium term revenue budget
- Appendix 5 Funding the capital programme
- Appendix 6 Budgetary risks
- Appendix 7 Reserves Forecast 2022/23