

POLICY AND RESOURCES COMMITTEE - 12 SEPTEMBER 2022

PART I – NOT DELEGATED

12. BUDGET MONITORING REPORT TO 31 JULY 2022
(DoF)

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 3 year medium term based on the Council's actual financial performance at the end of period four (31 July 2022) set against the latest budget.

1.3 Revenue Summary

1.3.1 The original 2022/23 budget as approved by Council 22 February 2022 was £13.188m. The latest budget which totals £13.840m includes the variances previously reported to Policy and Resources Committee in March 2022 (Period 10 Budget Monitoring) and July 2022 (2021/22 Year end report). The forecast year end position for 2022/23 at Period 4 is estimated to be £14.396m giving an unfavourable variance of £0.556m. This forecast does not include the 2022/23 pay award which is noted as a significant risk to the budget in sections 2.5 and 2.6.

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

Revenue Budget 2022/23		£000
Original Net Revenue Budget		13,188
Carry Forward from 2021/22 (Year end report July 2022)		0.652
Latest Approved Budget		13,840
Variances to budget reported at Period 4 – <i>(to be approved)</i>		0.556
Forecast Total Net Expenditure 2022/23		14,396

1.3.3 The main variances are shown in the table below:

Description		£000
1	Leisure Venues £494,519 reduction in SLM Management fee for 2022/23, offset by £32,000 of extra income due to the increase in cost of swimming lessons	462

2	Kerbside Recycling Full budget on Kerbside Recycling no longer required. £20,000 transferred to Playing Fields & Open Spaces to facilitate ongoing maintenance of play areas, £51,600 transferred to Trade Refuse to cover increased waste disposal charges, £43,200 transferred to Trade Refuse to cover the reduction in income, £7,880 transferred to Clinical Waste to cover the increased disposal costs from Herts County council, £15,825 transferred to Clinical waste to cover the reduction in income, £1,878 to be transferred to Pest Control to cover the inflationary rise of the service and £140,000 transferred to Waste Management to cover the increase in fuel costs	(280)
3	Waste Management £140,000 budget transferred from Kerbside Recycling to cover increase in fuel costs. £45,000 increase in income received from Herts County Council for Transport Subsidy	95
4	Garden Waste Increase in income of £22,000 received from Herts County Council for Transport Subsidy	(22)
5	Trade Refuse Reduction in income from Trade Refuse of £63,890 due to pre-covid levels not returning and more customers recycling. Increase in income of £5,460 on Bulky Domestic waste and £15,170 on recycling. The net variance of £43,260 is being offset against a reduction in the Kerbside Recycling Budget. £51,600 increase in waste disposal charges, budget transferred from Kerbside Recycling.	95
6	Development Management Increase in budget of £31k required for Legal fees due to Counsel costs for Maple Lodge planning appeal	31
7	2021/22 Pay Award 1.75% pay award across all services and an additional 1.25% National Insurance increase resulting in increase to pay budgets of £322,000 predominantly offset by contingency for 2021/22 pay award of £275,000	47
	Other Variances below £20k	128
	Total Variance	556

1.4 Capital Summary

1.4.1 The original 2022/23 capital budget as approved by Council on 22 February 2022 was £7.038m. The latest budget which totals £18.375 million includes the variances previously reported to Policy and Resources Committee in July 2022 (2021/22 Year end report). The forecast Year end position for 2022/23 provided by the services is £18.767m.

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

Capital Investment Programme 2022/23	£000
Original Budget	7,038
Rephasing from 2021/22	11,337
Latest Approved Budget (Council July 2022)	18,375
Variances to budget reported at Period 4 (<i>to be approved</i>)	392
Forecast Capital Expenditure 2022/23	18,767

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

Description	£000
Alternative Grassland Management Budget of £100k Approved at the 14th March 2022 P&R Committee meeting for the Alternative Grassland Management Regimes, to purchase equipment to implement agreed actions. Requirement now £40k.	40
South Oxhey Initiative Statutory Compulsory Purchase Order payment made. Final negotiations with one remaining tenant taking place which will require additional budget when final cost is ascertained.	352
TRH Whole Life Costing Budget transferred from Three Rivers House Transformation to support the installation of an Air Source Heat pump for water and heating at Three Rivers House. The balance is being funded by a government grant and will provide sufficient carbon savings to support the Council's route to zero.	196
Three Rivers House Transformation Budget transferred to Three Rivers House Whole Life Costing to support the installation of an Air Source Heat pump for water and heating at Three Rivers House. The balance is being funded by a government grant and will provide sufficient carbon savings to support the Council's route to zero.	(196)
Total Capital Variance	392

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)	(1,094)	(5,788)
Earmarked Reserves	(8,138)	(288)	(8,426)
Economic Impact Reserve	(2,334)	0	(2,334)
General Fund	(5,364)	1,561	(3,803)
Total	(20,530)	179	(20,351)

2 Details

2.1 Revenue Budget

2.1.1 The Council's latest approved services budget (excluding corporate budgets) is £11.639m. The forecast year end position is now estimated to be £12.171 million which results in a service variance of £0.532m.

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 4 (31 July 2022). 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	4,755	(2,250)	5,316	561
Infrastructure, Housing and Economic Development	1,436	1,562	(902)	1,643	80
Policy & Resources	4,996	5,322	(241)	5,236	(85)
Total Service Budgets	10,987	11,639	(3,393)	12,195	556
Corporate Costs (Interest Earned/ Paid), Parish Precepts and Transfer to Reserves	2,201	2,201	1,361	2,201	0
Net General Fund	13,188	13,840	(2,032)	14,396	556

2.2 Revenue Reserve Position

2.2.1 The effect of all Period 4 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 Brought Forward at 1 April	(5,364)	(5,364)	(5,364)	(3,803)	(3,147)
(Surplus)/Deficit for Year	340	1,004	1,561	656	704
Closing Balance at 31 March	(5,024)	(4,360)	(3,803)	(3,147)	(2,443)

2.2.2 A prudent minimum general fund balance of £2.000m is considered appropriate. The general fund balance is forecast to remain above this minimum level over the medium term.

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 £1.001m which will achieve an average yield of 5.53%, 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	(189)	4,469	4.23%	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. 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 oppose 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. Barclays Bank plc & Robinson Webster (Holdings) Limited contain a tenant only break clause, effective 26th February 2023 on six months minimum notice.
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)	(161)	2,740	5.89%	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.
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 with an annual interest payment of £0.187m.
Total	(1,001)	14,378	5.53%	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 Appendix 4 and includes variances and commentary from officers.

2.4.2 The latest capital budget including re-phasing from 2021/22 is £18.375m. The forecast year end position for capital expenditure by Services at Period 4 is £18.767m. This provides a variance of £0.392m.

2.4.3 The table below shows the 2022/23 original budget, latest budget, forecast year end position, spend to date and variance for Period 4.

Committee	Original Budget £000	Latest Budget £000	Spend to Date £000	Year end Forecast £000	Variance £000
Leisure, Environment and Community	3,718	4,042	405	4,082	40

Infrastructure, Housing and Economic Development	1,633	1,851	231	1,851	0
Policy & Resources	1,687	2,011	186	2,011	0
Total Service	7,038	7,904	822	7,944	0
Major Projects:					
South Oxhey Initiative	0	0	351	352	352
Property Investment	0	10,471	1	10,471	0
Total Capital	7,038	18,375	1,174	18,767	392

2.4.4 As at the end of Period 4, the total spend totalled £1.174m and represents 6.39% 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 6.

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 10.1% for July 2022 and the Retail Price Index (RPI) reached 12.3%. Inflation drives costs across the Council's budgets with the most significant impact on pay, fuel and energy costs.

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. However, any discussions in relation to additional support for the operator will recognise the existing support that is in place for 2022/23.

- **Business Rates & Council Tax**

Over the last couple of years additional support has been provided to business rate payers 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 four months of this year:

Fund	P4 2022/23 Target	P4 2022/23 Actual	Difference
Council Tax	39.9%	39.2%	-0.70%
Business Rates (NDR)	43.31%	41.87%	-1.44%

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 26 July 2022.

2.6 **Impact of inflation**

2.6.1 The pay award remains the most significant risk to the annual budget and MTFP. 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.

2.6.2 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.

2.6.3 This offer was rejected by the unions on 3 August 2022.

2.6.4 The offer made by the National Employers Panel is significantly above the 2.00% increase allowed within the budget for 2022/23 and represents an increase to the pay budget of 5.72%.

2.6.5 The total cost is estimated at £0.880m compared to a budget of £0.275m. This would create an annual pressure of £0.605m. This pressure could be met from general balances on a one off basis in the current year but will need to be addressed on an ongoing basis through the budget planning process.

2.6.6 A variation to the budget for fuel costs at the depot of £0.140m is reported in this monitoring update. This pressure has been offset by an increase to forecast income from recyclables.

2.6.7 The pressure from increased fuel costs was initially forecast to be as high as £0.018m per month, however, fuel prices have reduced over the last few weeks. This will continue to be closely monitored.

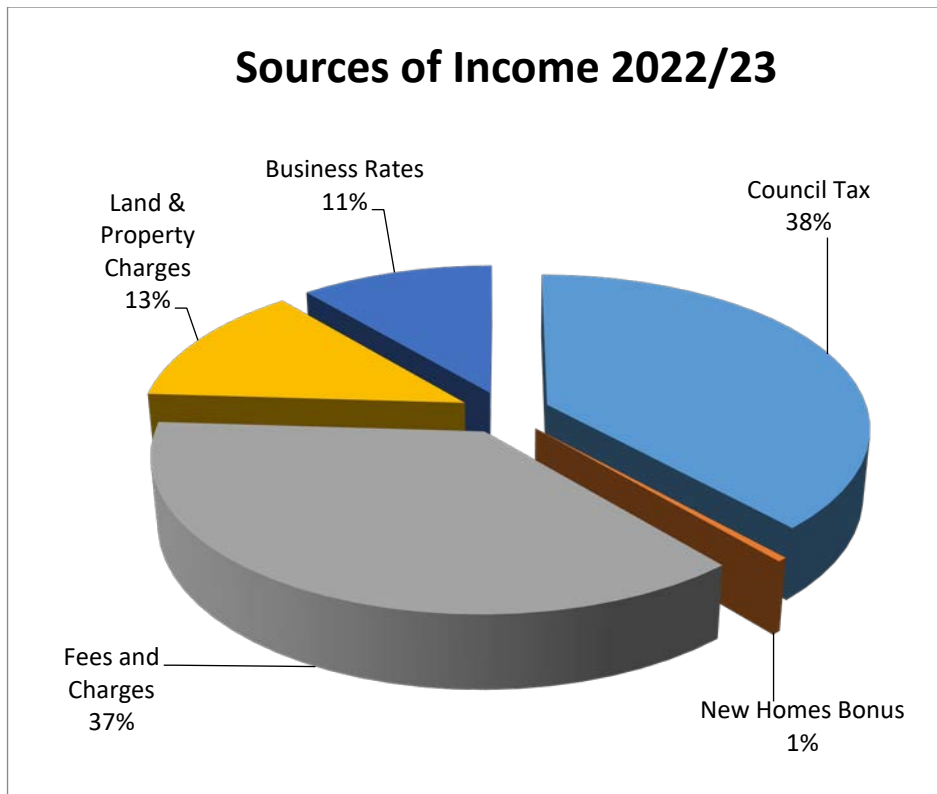
2.6.8 Energy costs are expected to exceed budgets in year although the pressure has not materialised in actual costs to 31 July 2022. This is due to bills being received in arrears and lower usage over the spring and summer months. As far as possible, services will be expected to absorb increased costs by managing other expenditure.

2.6.9 A further update will be provided in the next monitoring report when a forecast will be produced based on actual charges received and there will be further information available about the impact of the price cap rise in October.

2.7 **Council Income**

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

Sources of Income 2022/23



- 2.7.2 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.
- 2.7.3 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.
- 2.7.4 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)	(696,420)	(546,819)	(696,420)	0
	Licenses	(200,260)	(200,260)	(98,696)	(200,260)	0
Parking	Penalty Charge Notices	(115,000)	(115,000)	(30,001)	(82,616)	0
	Pay and Display	(220,000)	(220,000)	(52,930)	(175,337)	0
Environmental Protection	Trade Refuse	(794,760)	(794,760)	(377,254)	(751,500)	43,260
	Garden Waste	(1,223,200)	(1,223,200)	(1,217,934)	(1,223,200)	0
	Clinical Waste	(119,328)	(119,325)	(51,774)	(119,325)	0
	Cemeteries	(202,480)	(202,480)	(72,860)	(202,480)	0
Property Services	Garages	(976,830)	(976,830)	(303,383)	(976,830)	0
	Shops	(210,000)	(210,000)	(92,598)	(210,000)	0
	Investment Properties	(1,100,000)	(1,100,000)	(369,908)	(1,100,000)	0

2.7.5 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.

2.8 Debtors (invoicing)

2.8.1 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.

2.8.2 As at the end of Period 4 (July), the total outstanding debt was £0.290 million. This is equivalent to 1.15% of total budgeted income of £25.200 million. Debts less than a month old total £0.028 million (9.5% of total debt) and it is considered that this sum will be recovered. Outstanding debt over a year old is £0.080 million (27.7% 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.

2.8.3 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	0	55,800	0	55,800
	Environmental Services	10,015	40,022	7,039	57,076
	Leisure	5,268	1,270	0	6,538
Infrastructure, Housing and Economic Development	Housing- Temporary Accommodation	10,941	17,318	55,790	84,049
	Planning	360	23,634	12	24,006
Policy & Resources	Legal & Property	1,012	42,082	6,622	49,716
	Insurance	0	148	504	652
	Others	33	1,705	10,371	12,109
Total		27,629	181,979	80,338	289,946

2.9 Treasury Management

2.9.1 The Council has managed its cash flows and adhered to its Treasury Management policy during the period to 31st July. 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. The base rate was therefore 1.25% at the end of the period. A further increase of 0.50% was made in August 2022. The increase in base rate has fed through into increased market returns for short-term deposits, which means it is likely that the income budget of £0.090m will be achieved in 2022/23.

2.10 Staff Vacancy Monitoring

2.10.1 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 July 2022 with a detailed analysis by service within appendices 1 to 3.

Committee	No of Vacancies
Infrastructure, Housing and Economic Development	4
Leisure, Environment & Community	4
Policy & Resources	19
Total	27

2.10.2 The percentage of vacant posts at the end of the first quarter is 7.46% when compared against the total number of 362 Council posts. Although there are 27 vacant posts this equates to 26.1 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 July 2022:

Variance	2022/23 £	2023/24 £	2024/25 £
Revenue - (Favourable)/ Unfavourable	556,513	59,244	59,244
Capital - Increase / (Decrease)	391,764	0	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 6 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 – February 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