

**REVENUE AND CAPITAL BUDGET MONITORING REPORT – P1 2022/23**

**SUMMARY:**

This report sets out the anticipated financial position for 2022/23, based on initial budget monitoring carried out with Heads of Service and Service Managers during July 2022.

**RECOMMENDATIONS:**

CABINET is recommended to:

- i. Note the Revenue budget forecast and impact on reserve balances as set out in Section 3 of the report
- ii. Note the Capital Programme forecast as set out in Section 5 of the report
- iii. Approve the Recommended Actions as set out in Section 4 of the report to manage and reduce the level of adverse variation across the Revenue budget.

**1 INTRODUCTION**

- 1.1 This report provides members with an update on the forecast outturn position and monitoring position statement for the financial year 2022/23. The purpose of this report is to notify members of any significant variations to budgets identified in the initial budget monitor exercise, highlight any key financial issues, and to inform members of options and further action to be taken.
- 1.2 The forecast focuses on the immediate financial pressures as they have been identified and should be seen as an update to the 2022-23 High-Risk Budgets, Financial Reporting Plan and Budget Monitoring Process report [[Report No. FIN2223](#)] considered by Cabinet at their meeting on 05 July 2022. Further validation, scrutiny of forecast assumptions, and analysis will be undertaken over the coming weeks to ensure a robust monitoring position is established. Heads of Service, Service Managers and the Finance Team will continue to work collaboratively to validate forecast assumptions and to enable managers to deliver the Council's services within the approved budget.

- 1.3 Cabinet will receive and updated report with detailed variance analysis and commentary at their meeting on 13 September 2022. This will then underpin the update to the Medium-Term Financial Strategy (MTFS) and Savings and Transformation Programme to inform the budget setting process for 2023/24

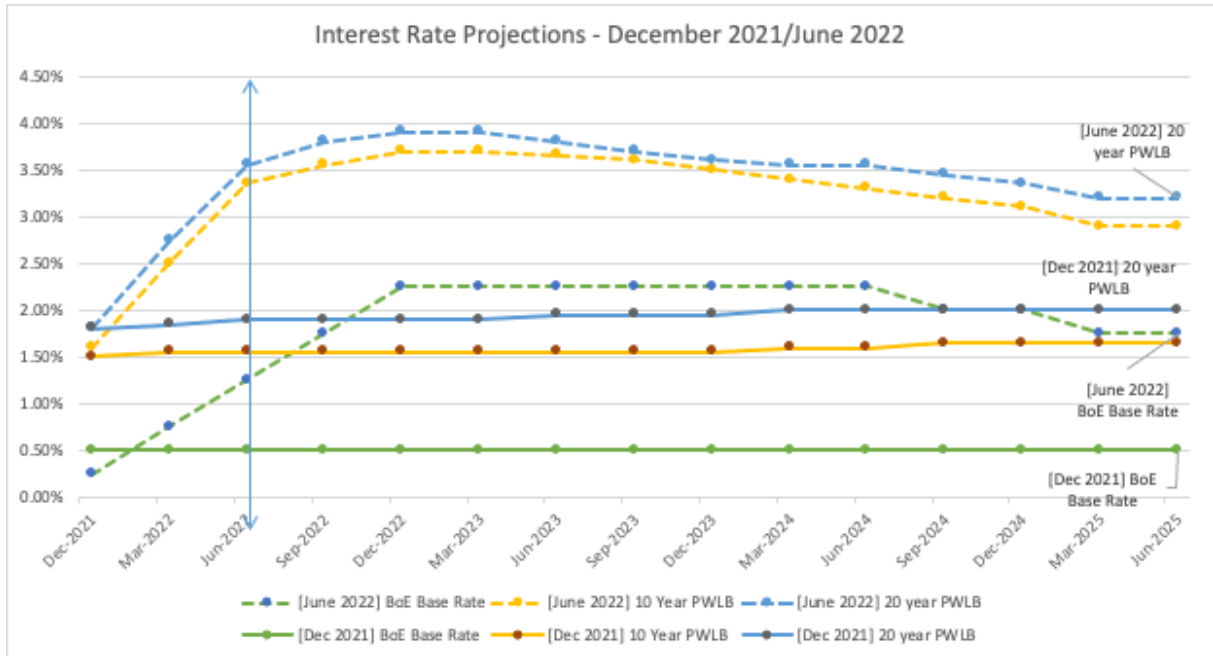
## 2 EXTERNAL ECONOMIC ENVIRONMENT – BUDGET PRESSURES

- 2.1 The Council faces several external budget pressures that will have an impact on the 2022/23 budget and the Council's finances over the medium-term. Whilst these were detailed in the 2022/23 High-Risk Budgets report, these are outlined briefly below.

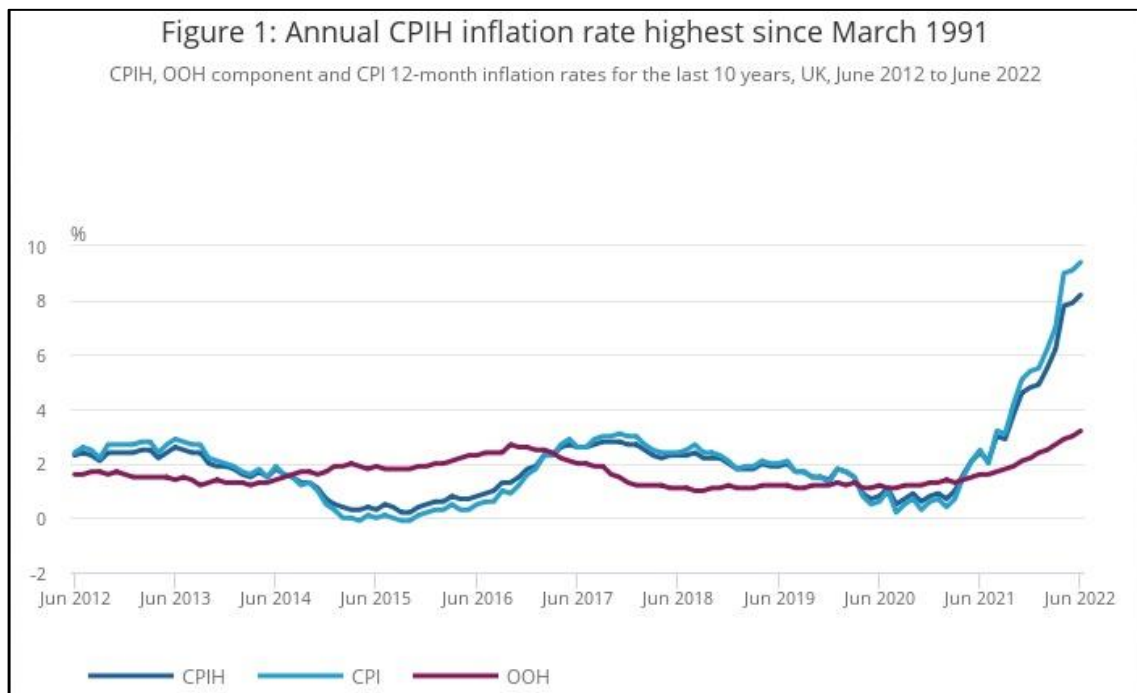
- **Interest Rates:** Impact of an increase in both short and longer-term interest rates on the Council's external borrowing. Initial estimates indicated an **adverse variation in the range of £0.500m to £0.750m**. The Bank of England base rate is currently 1.25% and is forecast to increase further in response to inflationary pressure. Arlingclose's latest forecast indicates the base rate could reach 2.25% by the end of the calendar year and remain at that level [See Chart 1].
- **Pay Award:** Increasing risk that the Pay Award for Local Government is above the MTFS budgeted level of 2%. In a series of statements on 19 July 2022, the government announced that public sector workers such as NHS, Teachers, Police, and the Armed Forces will receive pay awards below the current level of inflation with the typical award in the range of 3.5% to 5.0%. Local Government Employers (LGE) have made an initial offer to the unions although it is anticipated that negotiations will continue. If Local Government were to agree a similar pay award to the rest of the public sector, this would **increase costs by around £0.500m**.
- **Energy Costs:** The increase in the energy price cap in April 2022 (54%) and the expected increase in October 2022 (a further 42%) will be above the £0.100m provision included in the MTFS for 2022/23 (between 30% and 40% as Electricity and Gas prices were expected to increase by different amounts). With the combined increase in the price cap expected to be 119%, this would give rise to a **pressure of £0.250m**. Further pressure on prices cannot be ruled out given the volatility of Gas supply due to the conflict in the Ukraine.
- **Inflation:** The current level of inflation, as measured by the Consumer Prices Index, is 9.4% (up from 9.1% in May). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 11.8%. At this stage of the financial year it is difficult to determine the impact on the Council's budgets for 2022/23 but it can be expected that inflationary

pressures will come through over the coming months. Charts 2a and 2b below published by the Office for National Statistics and Bank of England shows how steeply prices have risen over the last 6 months and the projection.

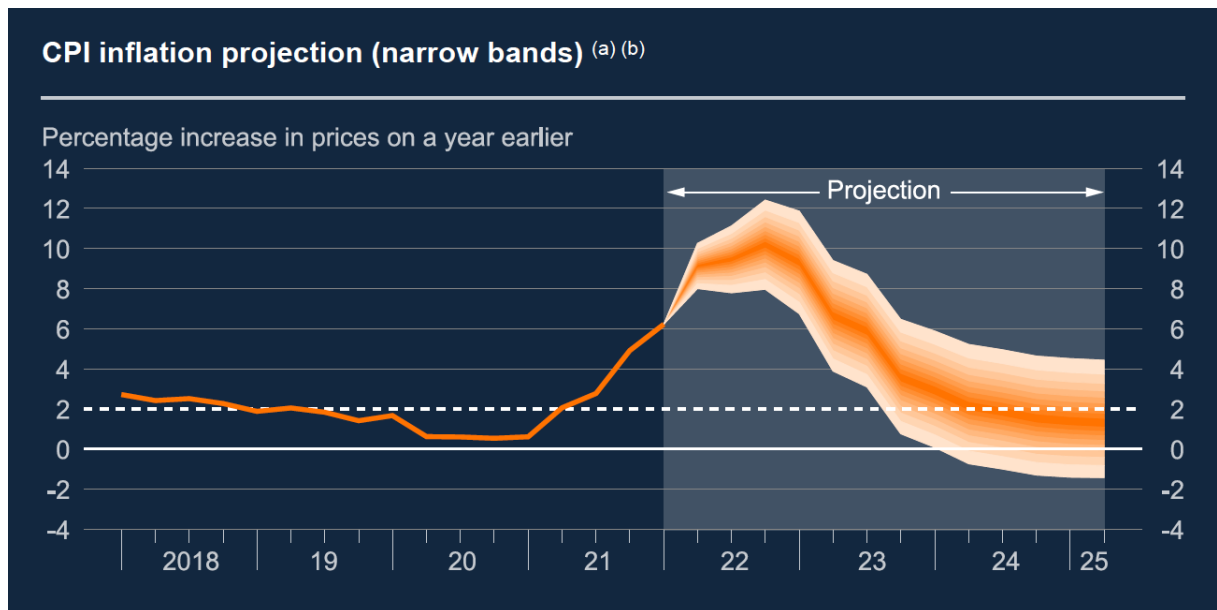
**Chart 1 – Interest Rate projection (December 2021, June 2022)**



**Chart 2a – ONS Inflation Chart (July 2022)**



**Chart 2b – Bank of England Monetary Report (May 2022)**



- 2.2 It is clear from the data and forecasts that external economic factors will have an impact on the Council's revenue and capital expenditure in 2022/23 and will place additional financial pressure over the Medium-Term Financial Strategy period.
- 2.3 When taken in aggregate, there is a potential financial pressure in excess of £1m on the revenue budget in 2022/23.
- 2.4 Therefore, members should take into account the risk to the Council's budget as outlined above when appraising the forecast for Service Revenue Expenditure and Capital Expenditure budgets for 2022/23, and when appraising any further financial commitments in year or over the medium-term.
- 2.5 The above risks and pressures will be kept under review by Heads of Service and reported on throughout the year. Budget monitoring reports, as detailed in Section 3, will report quarterly to Cabinet with updates on the current risks and pressures as at the time of reporting.

### **3 REVENUE BUDGET FORECAST 2022-23**

- 3.1 The original net General Fund Revenue budget for 2022/23 was approved by Council at their meeting in February 2022 of £12.503m.

3.2 Changes have been made to the budget to allocate approved carry forwards from 2022/23, Savings and Transformation Programme items to service budgets and any other estimates agreed by Cabinet and Council. The current budget remains at £12.503m. A reconciliation between the original budget and latest budget is shown in the table below.

**Table 1: General Fund Revenue Budget reconciliation**

<b>General Fund Revenue Budget</b>	<b>2022/23 (£'000)</b>
<b>Original Budget - Council (24th February 2022)</b>	12,503
Add:	
Add:	
Less:	
Less:	
<b>Latest Budget as at 01/07/2022</b>	<b>12,503</b>

3.3 The initial forecast for the General Fund is a net adverse variation of £1.605m (12.84% of the Net Revenue budget) as shown in Table 2.

3.4 In terms of key variations, the initial position on Service Revenue Expenditure is an adverse variation of £0.355m (2.47%) with an adverse variation of £0.750m across non-service income and expenditure (i.e. Corporate Income and Expenditure) and the inclusion of £0.500m as a risk factor in the forecast.

3.5 This report does not provide a detailed analysis of the variation across Service Revenue Expenditure. As set out in paragraph 1.2, further work will be undertaken over the coming weeks to validate the forecasts provided by Heads of Service and Service Managers to ensure assumptions made in the forecasts are clear and robust. An integral part of this work will be to reduce the level of adverse variation across services. This will involve a review of expenditure and income budgets not yet fully committed, exploration of further savings and cost reduction measures, and to set out other management actions and options that could be taken to reduce the adverse variation.

3.6 Clearly, the initial forecast position across services is of a concern. Cabinet are asked to endorse the proposals outlined in paragraph 3.5.

**Table 2: General Fund Revenue Budget Forecast (P1 2022/23)**

General Fund Revenue Budget	2022/23 Original Budget (£'000)	2022/23 Revised Budget (£'000)	2022/23 Forecast Outturn (£'000)	2022/23 Variation (£'000)
Corporate Services	2,854	2,810	2,940	130
Customer Experience & Improvement	26	237	214	(23)
Democracy, Strategy & Partnerships	2,932	2,958	2,878	(81)
ICE Programme	306	55	55	0
Major Projects and Property	(4,267)	(4,267)	(4,168)	99
Operational Services	10,409	10,218	10,416	198
Planning and Economy	2,364	2,361	2,393	32
DS Adj to agree to MTFS	138			
<b>Total Service Revenue Expenditure</b>	<b>14,762</b>	<b>14,373</b>	<b>14,728</b>	<b>355</b>
Less: Reversal of Accounting Entries	(3,142)	(3,142)	(3,142)	0
<b>Net Service Revenue Expenditure</b>	<b>11,620</b>	<b>11,231</b>	<b>11,586</b>	<b>355</b>
Corporate Income and Expenditure	2,189	2,190	2,940	750
Expenditure Pressures	0	0	0	0
Risk Forecast Adjustment	0	0	500	500
Movement in Reserves	(728)	(728)	(728)	0
Savings Plan Delivery	(578)	(189)	(189)	0
<b>Net General Fund Revenue Budget</b>	<b>12,503</b>	<b>12,503</b>	<b>14,108</b>	<b>1,605</b>
<b>Funded by:</b>				
Council Tax	7,196	7,196	7,196	0
Business Rates	4,031	4,031	4,031	0
New Homes Bonus	344	344	344	0
Lower Tier Services Grant/Services Grant	273	273	273	0
Other Funding	(314)	(314)	(314)	0
<b>Total Funding</b>	<b>11,530</b>	<b>11,530</b>	<b>11,530</b>	<b>0</b>
<b>Core (Surplus)/Deficit</b>	<b>973</b>	<b>973</b>	<b>2,578</b>	<b>1,605</b>
<b>Balanced by:</b>				
MTFS Stabilisation/Equalisation Reserve	(973)	(973)	(973)	0
<b>Core (Surplus)/Deficit after Transfers</b>	<b>0</b>	<b>0</b>	<b>1,605</b>	<b>1,605</b>

3.7 As discussed in Section 2 of the report, external economic factors contribute to the £1.250m adverse variation with the non-service element of the General Fund revenue budget. Table 3 below shows the projected variation on Interest Payable and Energy Costs. Whilst these additional costs have not yet been evident/come through in Q1, there is no doubt from the economic data from the Bank of England (Interest Rates) and Ofgem (Energy costs) that these costs will be present in Q2-Q4.

3.8 The cost of borrowing has seen a sharp increase in the first half of the calendar year with both short-term and longer-term interest rates increasing by between 1.50% and 2.00% and above the estimates made within the MTFS. At the time

of writing this report (21 July), the Council has £90m of external debt which is likely to increase to around £135m based on commitments within the approved capital programme.

- 3.9 The revenue budget and MTFS had assumed an increase in the cost of borrowing with short-term rates of 0.80% and longer-term rates of 2.10%. At the time of writing, short-term rates are around 2.25% with longer-term PWLB rates at around 3.30%. Other things being equal, the higher interest rates equate to an additional cost pressure of £0.500m to £0.750m depending on the timing of borrowing decisions and cashflow.
- 3.10 The Council should consider other sources of capital finance. As set out in the Revenue Budget, Capital Programme, and Council Tax Level Report to Cabinet and Council in February 2022, the Council's capital expenditure is predominantly financed from prudential borrowing. To mitigate the increased cost of borrowing the Council will need to consider other sources of finance support the capital programme, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts).
- 3.11 Arlingclose (the Council's Treasury Management advisers) have been commissioned to set out the wider options available to the Council in light of the current position on interest rates. This is due to be completed within the next few weeks and will help inform capital financing and borrowing decisions.
- 3.12 Members should consider the impact on the Council's financial sustainability of any additional capital expenditure plans. Although schemes may be supported by income streams and promote wider economic benefit to the borough, the increased cost of borrowing will have an impact on the financial viability and will require adequate financial risk mitigation measures.

**Table 3: Corporate Income & Expenditure**

<b>Corporate Income and Expenditure</b>	<b>2022/23 Original Budget (£'000)</b>	<b>2022/23 Revised Budget (£'000)</b>	<b>2022/23 Forecast Outturn (£'000)</b>	<b>2022/23 Variation (£'000)</b>
Minimum Revenue Provision (MRP)	2,657	2,657	2,657	0
Interest Payable	1,250	1,250	1,750	500
Capitalisation of Interest	(250)	(250)	(250)	0
Interest Receivable	(1,250)	(1,250)	(1,250)	0
Service Loans to Housing Company	(210)	(210)	(210)	0
Energy Cost Inflation - Provision	100	100	350	250
Other Corporate Income and Expenditure	342	342	342	0
Cabinet/Council Decisions		0	0	0
Additional Items/Growth		0	0	0
Savings - CREP	(578)	(578)	(578)	0
Savings - Salary Monitoring	(200)	(200)	(200)	0
Flexible Capital Receipts	(250)	(250)	(250)	0
<b>Total Corporate Income and Expenditure</b>	<b>1,611</b>	<b>1,611</b>	<b>2,361</b>	<b>750</b>

#### **4 IMPLICATIONS AND RECOMMENDED ACTION**

- 4.1 At this early stage of the financial year, the projected variance of £1.6m on the revenue budget would pose a significant risk to the Council's financial sustainability. Urgent action needs to be taken over the coming weeks to mitigate and reduce the projected variation. The adverse variation cannot be funded from the MTFs Equalisation reserve as this would reduce the level of the reserve below what is considered to be adequate.
- 4.2 A number of recommendations are outlined below to address the projected variation. Subject to Cabinet approval, these will be implemented immediately and will form the framework for future budget monitoring reports to Cabinet.
- 4.3 **Recommended Action #1:** To adopt the approach as set out in paragraph 3.5 (review of forecast and commitments) and paragraph 3.10 (capital financing)
- 4.4 **Recommended Action #2:** Heads of Service and Service Manager, in consultation with the relevant Portfolio holder, to identify further savings, cost reduction measures and additional income opportunities. These will then be reviewed as part of the in-year strategy to mitigate the adverse financial position as identified in this report.



- 4.5 **Recommended Action #3:** In the event the Council receives one-off income or cost savings, it is proposed this is allocated to the MTFS Equalisation reserve and not committed to fund existing or additional expenditure.
- 4.6 **Recommended Action #4:** As part of the budget setting process for 2023/24 and MTFS update it is proposed that revenue and capital expenditure plans where commitments have not yet been entered into are reviewed to understand the wider risk to the Council's financial position over the medium-term.
- 4.7 **Recommended Action #5:** As part of the Budget Strategy for 2023/24 and the MTFS update, a review of the Reserves and Balances strategy is undertaken to consider the adequacy of reserves in light of the financial risks faced by the Council.

## **5 CAPITAL PROGRAMME FORECAST 2022/23**

- 5.1 The original net Capital Programme estimate for 2022/23 was approved by Council at their meeting in February 2022 of £37.008m.
- 5.2 Cabinet will consider the final outturn report for the 2021/22 financial year at the meeting on 13 September 2022. The capital programme for 2021/22 was significantly underspent at the end of the year and it is likely that slippage of £2.363m will be included in the final outturn report. For reference, the draft proposals are outlined below.

**Table 4a: Capital Programme – Slippage from 2021/22**

<b>Capital Scheme</b>	<b>Proposed slippage from 2021/22 (£'000)</b>
The Meads - Pre-Acq Costs Contract Costs	231
Civic Quarter F'boro Dvlp (Bc) Flc Pre Dev, Demolition	74
Union St East A'shot Regen(Bc) Contract Costs	538
Union Yard Party Wall Contract Costs	262
Improvement Grants - Disabled Facilities Grants	854
Waste Vehicles Contract Costs	235
Southwood Country Park SANG - Contract Costs	58
Southwood Country Park SANG - Visitor Centre Set-Up Costs	47
Southwood Country Park SANG - Cafe Set-Up Costs	64
<b>TOTAL</b>	<b>2,363</b>

- 5.3 Since the approval of the 2022/23 Estimate Cabinet have agreed a number of additions to the Capital Programme. These additions are as follows:

**Table 4b: Capital Programme – Additional expenditure items**

<b>Additional Capital Expenditure considered by Cabinet</b>	<b>(£'000)</b>
Civic Quarter - Additional Demolition costs	628
Union Yard - Extension of Time claim	783
Farnborough Town Centre Regeneration - Due Diligence	75
<b>TOTAL</b>	<b>1,486</b>

- 5.4 The revised Capital Programme for 2022/23 with additional items and the proposed slippage from 2021/22 will amount to £40.857m. This will be formally proposed to Cabinet in September alongside a revised Capital Financing Statement.
- 5.5 The current expectation is that latest Capital Programme estimate of £40.857m will be fully expended in the current financial year even though only £3.6m has been spent or committed in the first quarter to the end of June 2022. Officers will closely monitor spend against approved Capital Budgets with regular updates being submitted to Cabinet in line with the agreed budget monitoring arrangements.

## **6 RISKS AND UNCERTAINTIES**

6.1 The report outlines a number of risks and uncertainties around the wider economic environment. Some further risks are briefly outlined below.

- Assumptions made in the forecast are based on projections for inflation and interest rates. Uncertainty remains around Government policy, weakness of GBP (£) against US Dollar (\$), US interest rates which may lead to higher inflation and interest rates and UK Gilt prices (and hence PWLB rates).
- This report includes initial forecasts for income from fees and charges and this remains a risk to the Council given the impact of higher prices and energy costs on the cost of living. This may lead to reduced demand for council services and hence lower income from fees and charges.
- There is a risk that the Council is Council Tax and Business Rates collection figures – more challenging than during Covid

## **7 CONCLUSIONS**

7.1 This report highlights some of the financial risks that are expected to materialise in the coming months and Members will continue to be updated on these throughout the year.

### **BACKGROUND DOCUMENTS:**

None

### **CONTACT DETAILS:**

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